An exploration of innovation and governance in Australian Superannuation Organisations

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Declaration of Originality

This thesis contains no material which has been accepted for a degree or diploma by the University or any other institution, except by way of background information and duly acknowledged in the thesis, and to the best of my knowledge and belief no material previously published or written by another person except where due acknowledgement is made in the text of the thesis, nor does the thesis contain any material that infringes copyright.

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Abstract

In a large-scale single industry case study insights are provided into factors affecting innovation into the superannuation industry in Australia, one of the country's most significant service industries. In addition, the links between innovation and corporate governance are explored.

The major factor leading to innovation was the CEO's leadership. Barriers to innovation include structural and cultural inhibitors, low competition within the Australian Superannuation Industry, high costs involved with the risk and uncertainty of innovation, difficulties in measuring the success of innovation and a general resistance among employees. The "sole purpose" test imposed on trustees by regulation was also perceived as a major inhibitor of innovation. Factors affecting corporate governance were inadequate trustee skill sets, board decision-making processes, board composition, current regulations and an ever changing and highly regulated environment.

In the sphere of governance I found that strategic leadership by the CEO was the most important factor and the role of the board was minimal. Board composition and trustee skill sets were not important in innovation.

Dedication

I dedicate this doctoral thesis to my daughters, and thank them for their patience over many years. They have only ever known a mother who has studied and been totally committed to the pursuit of education often through challenging and difficult times, I hope this insight and experience serves them well later on in life.

To my nine year old daughter Amber, who has constantly asked over the years “have you finished your document yet?” I can now finally say yes.

In Memory of

In Memory of Mr. and Mrs. Gordon and Madge Brooks, Mrs. Jan O’Grady and Associate Professor Sue Harsky.

I know that Gordon and Madge Brooks would be proud of the fact that I finally finished my thesis. Thank you for your kindness and support over the years, I was truly blessed to have spent time with you both.

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I will never ever forget sitting around boardroom tables, or in CEO offices or having coffees with experts in the industry, during the commencement of the global financial crisis where these very influential individuals gave their time so generously when they were dealing with media and other major stresses.

Due to confidentiality, I am unable to acknowledge everyone that was interviewed and the superannuation entities involved. However, I extend my thanks to the following individuals who truly were remarkable with their support, insight, experience and wealth of knowledge with the Australian Superannuation Industry: Mr David Atkin; Terry McCredden; Mr Ian Silk; Megan Boulton; Dr Thomas Parry; Mr Michael Dwyer; Mr Barry Forbes; Mr Martin Crowe; Mr Graeme Miller; Mr Ken Marshman; and Mr Wayne Davy.

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Thank you to Dr Paul Shantapriyan who introduced me to the research of Vijay Govindarajan and Chris Trimble and to Mr Kieran O'Brien at the AIRC who always remained in the background yet generous in providing any information when asked of him. Thanks to Greg Zooeff for his initial input in the early stages of my research.

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Terminological Note

As a matter of terminology, the Australian usage of the term *superannuation* is unique compared to other countries, where the corresponding term used for the provision of benefits upon retirement is *pensions.* For the purposes of this doctoral thesis, the term *superannuation* is used in the majority of cases throughout this thesis and is deemed synonymous with the term *pension.*

Table of Statutes

Commonwealth Acts and Regulations

- *Australian Prudential Regulation Authority Act* 1998
- *Australian Securities and Investment Commission Act* 2001
- *Corporations Act* 2001
- *Income Tax Assessment Act* 1936
- *Occupational Superannuation Standards Act* 1987 (repealed)
- *Occupational Superannuation Standards Amendment Act* 1993 (repealed)
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- *Superannuation Industry (Supervision) Act* 1993
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- *Superannuation Legislation Amendment Act (No. 3)* 1999
- *Superannuation Supervisory Levy Amendment Act* 1993

- *Superannuation Legislation Amendment (MySuper provisions) Act* 2012
- *Superannuation Legislation Amendment (Further MySuper and Transparency Measures) Act* 2012 (Act 171 of 2012)
- *Superannuation Legislation Amendment (Service Providers and Other Governance Measures)* Act 2013 (Act 61 of 2013)
- *Superannuation Legislation Amendment Regulation 2013*
- *Superannuation Legislation Amendment (MySuper Measures) Regulation 2013.*

USA Act

- *The Sarbanes-Oxley Act* (USA) (2002) (Pub.L. 107-204, 116 Stat. 745, enacted July 30, 2002.

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- *APRA v Derstepanian* [2005] FCA 1121.
- *Austin v Commonwealth of Australia* (2003) 215 CLR 195.
- *Raymor Contractors v FC of T* 91 ATC 4259.
- *Re Montgomery Wools Pty Limited as trustee for Montgomery Wools Pty Limited Super Fund v. Commissioner of Taxation* [2012] AATA 61.
- *Swiss Chalet case* (Case 43/95, AAT Case 10301).

Selected Abbreviations

ACSI: Australian Council of Super Investors

ACTU: Australian Council of Trade Unions

ADF: Approved Deposit Fund

AIST: Australian Institute of Superannuation Trustees

APRA: Australian Prudential Regulation Authority

ASF: Australian Superannuation Fund

ASI: Australian Superannuation Industry

ASFA: Association of Superannuation Funds of Australia

ASIC: Australian Securities and Investment Commission

ATO: Australian Taxation Office

ASX: Australian Stock Exchange

CEO: Chief Executive Officer

CFO: Chief Financial Officer

CIO: Chief Information Officer or Chief Investment Officer

CTH: Commonwealth of Australia

DAF: Development Australia Fund

EMT: Executive Management Team

ETP: Eligible Termination Payment.

FCA: Federal Court of Australia

FOFA: Future of Financial Advice (Financial Reform)

FUM: Funds under Management

GFC: General Financial Crisis

IBS: Information Based Strategy

ICAA: The Institute of Chartered Accountants Australia

IFS: Industry Fund Services

ISC: Insurance and Superannuation Commission

ISH: Industry Super Holdings

ISPT: Industry Super Property Trust

MEB: Members Equity Bank

NDP: New Product Development

NFP: Not-For-Profit

OSS ACT: *Occupational Superannuation Standards Act*

RBLs: Reasonable Benefit Limits

RDT: Resource Dependent Theory

ROI: Return on Investment

RSA: Retirement Saving Account

SGC: Superannuation guarantee charge

SIS: *Superannuation Industry (Supervision) Act* 1993

SMSF: Self-managed superannuation fund

UK: United Kingdom

USA: United States of America

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INTRODUCTION

The extent of innovation in the superannuation industry has not been investigated globally. The only researchers to date that have explored the topic of innovation within the context of this industry are; Dr Gordon Clark, Halford Mackinder Professor of Geography in the UK and global investment specialist Roger Urwin in the USA. The topic has not been investigated in Australia, which is astonishing since it is the fourth largest pension fund market in the world.

Both governance and innovation are arguably central to the improvement of the overall performance of superannuation entities in a fast moving global economy. Yet there are no legislated governance requirements applicable for the governance of superannuation plans in Australia or encouragement of innovation.

Although the superannuation industry differs from the corporate sector, many of the superannuation governance guidelines published by Association of Superannuation Funds Australia ("ASFA") are aligned with corporate governance practices recommended by the Australian Stock Exchange (ASX) Corporate Governance Council (2007).

Historically, literature in the area of corporate governance or innovation has not specifically addressed the links or relationship between corporate governance and innovation. O'Sullivan (2000) and Lazonick (1998) appear to be the first researchers to attempt to explain the link between corporate governance, innovation and economic performance in detail and they found that without a theory of innovation in the process of economic development, the link between corporate governance and economic performance cannot be made. These researchers also found that the introduction of innovation complicates corporate governance theories as there is no recognition of innovation in any of the theories. Studies relating to innovation within the context of the service industry are a relatively new area of research that has been led by innovation scholars such as Miles (2005) or Tether (2002). "Innovation in service-orientated sectors can differ substantially from innovation in many manufacturing-orientated sectors. It is often less formally organised, more incremental in nature and less technological" (OECD- Eurostat, 2005: 11). Within the literature several issues emerge, firstly, the constraints placed on innovation (DTI, 2007) and secondly, the actual strategic role of the board in relation to the concept of innovation. This research explores both these issues.

Innovation in superannuation is vital for this important industry yet the current landscape in Australia involves a maze of legislative requirements and competition in the global economy. Innovation is nevertheless considered a key to the improvement of performance over time. To understand the position of innovation in this field of research, it is important to first gain an understanding of the corporate governance frameworks that reign within this industry. The King Committee on Corporate Governance (2002) Report noted that a board of directors should aim to conform to corporate governance constraints while at the same time perform in an innovative and entrepreneurial way.

It is clear that corporate governance has a major role to play in the superannuation industry as superannuation funds have become increasingly developed and to perform corporate governance functions effectively; the industry itself must be efficient and drive productivity.

The question of how superannuation funds should be governed to enhance corporate and economic performance has received increasing attention from international organisations and leading academics such as Ambachsheer (2007). Previous published research has acknowledged that good governance is required to be effective in the competitive and complex environment of superannuation. Prior research by Ambachtsheer demonstrated a ‘governance shortfall’ (the return foregone due to internal governance and management problems) between good and bad governance of 100 to 200 basis points per annum in his database of funds.

Good corporate governance promotes innovation that is deliberate, consistent, encouraged, nurtured and actively managed, according to de Villiers (2003). However, this may not be the usual practice in this industry. Similarly, Drucker (1985) recognised that innovation is a vital part of any responsible director’s role and “…It is the act that endows resources with a new capacity to create wealth. Innovation, indeed creates a resource” (1985:27).

It is clear from the literature that both corporate governance and innovation have a major role to play within this industry. The establishment of an effective corporate governance system requires an efficient financial sector subject to regulation and supervision to protect the economy and wider society from systemic failures (Mallin *et al*. 2005) as witnessed firsthand throughout the global financial crisis in 2008.

Research indicates that innovation is a complex interaction between a number of variables such as intellectual capital, corporate governance, financial performance, leadership, competitive intensity, industry/market, and structure. Teece (2004) states that formal structures such as governance, powerfully influence the rate and direction of their innovative activities. This research seeks to determine whether or not innovation occurs within the Australian Superannuation Industry (ASI) and whether innovation is hindered within a fund by established corporate governance frameworks and whether the board of trustees’ conduct as an element of corporate governance has an influence on innovation.

The ASI is already an established service industry and continues to grow in size and importance quickly as self-funded retirees and government mandated superannuation funds proliferate. This research will examine the link between corporate governance and innovation within the ASI. To achieve this objective the following two broad research questions will be investigated:

1. Is there innovation in the ASI, and if so how does innovation manifest in this industry? And:
2. What role do boards and CEOs play in the innovation process in this industry?

There are four objectives of this research which include: firstly, to advance the governance agenda by reviewing and researching the governance platform in Australia in relation to superannuation boards; secondly, to examine whether or not current governance frameworks in Australia promote or hinder innovation within the superannuation industry; thirdly, to advance the knowledge of service industry innovation; and finally, to gain insight into the range of innovations across different sectors of the ASI and the new product range offered to members.

Chapter Outline

This thesis is divided into seven chapters. The first six chapters establish the background for the research.

Chapter One sets the scene by providing an overview of the history of the superannuation environment in Australia. More specifically, it commences with a broad historical perspective of the superannuation environment in Australia. This is followed by a detailed analysis of the current law governing the operation of Australian Superannuation Funds (herein referred to as "ASFs") and examines the prudential supervision of ASFs. This chapter outlines the type of funds available in Australia, and the aspects of regulatory compliance, which face trustees within this industry. An analysis of the prudential standards, in particular the investments standards that govern the industry are provided. This chapter also considers the milieu within which superannuation operates and includes a historical background and the current law which regulates the industry.

Chapter Two provides an outline of the corporate governance framework of all the funds used in this thesis.

Chapter Three provides a literature review in relation to innovation within the services industry that incorporates research current to January 2014.

Chapter Four proceeds with a theoretical framework from a literature review on the interaction between corporate governance and innovation and culminates in specific research questions to be investigated in this research.

Chapter Five outlines the case method used to gather the necessary data required to answer the broad research question set out in this introduction and the two main research questions set out in Chapter Four.

Chapter Six presents the findings of the ASI case study that were coded and categorised into common themes emerging from the interviews.

Chapter Seven provides a discussion on the key findings of the research, future research and the limitations of this research.

CHAPTER 1 - THE SUPERANNUATION ENVIRONMENT

Chapter Overview

SECTION ONE

- A broad historical perspective of the superannuation environment in Australia.
- An analysis of the current law governing the operation of Australian superannuation funds.
- An examination of the prudential supervision of superannuation funds in Australia.
- An understanding of the types of superannuation funds available in Australia, some aspects of regulatory compliance which face trustees.
- An analysis of the prudential standards, particularly the investment standards, governing the industry.

SECTION TWO

- Illustrates the structure of superannuation funds in Australia.
- Provides an overview of the different types of funds within the ASI.
- Provides an overview of the trustee's prescribed covenants set out in the *Superannuation Industry (Supervision) Act* 1993.
- Identifies the use of the investment standards in the SIS legislation.
- Identifies and explains the legislative requirements of the 'sole purpose' test.

SECTION THREE

- Provides an overview of the trends in the superannuation industry in Australia.
- Identifies and understand the growing trend towards consolidation within the ASI.
- Provides a financial market summary of the ASI at the time of data collection.

SECTION 1: THE SUPERANNUATION ENVIRONMENT IN AUSTRALIA: A BROAD HISTORICAL PERSPECTIVE

Superannuation in Australia can be traced back to the mid-1800s, when banking entities and insurance companies provided benefits to their staff, typically senior executives. The benefits provided were mainly pensions or lump sum benefits. In addition, pension benefits were provided to defence force members for military service and for retired members of the public service.

There were various changes to legislation concerning superannuation during the period between 1960-1990. The objective of these changes was to encourage an increase in superannuation coverage across the Australian workforce. For example, during the 1960s significant changes were made to the qualifications for a fund established for employers to receive tax concessions. Many of the changes required fund trustees to notify members that actually belonged to the fund and that the amounts being accumulated for the members were reasonable in the opinion of the Tax Commissioner.

Significant change occurred in 1983, as there were changes to the tax rules which had been in place since 1915. The original rules required that five per cent of lump sum benefits paid in consequence of the termination of employment were taxed at the recipient's personal tax rate. These lump sum benefits included redundancy payments; ex gratia payments from employment and superannuation fund lump sums. The rules applying from 1 July 1983 placed a higher rate of tax essentially on that part of the benefit, which accumulated from that time. As part of these changes to the tax legislation a new retirement vehicle was created, the Approved Deposit Fund (ADF). The role of an ADF was to be a holding account for superannuation and other retirement benefits while a member was deciding where to invest their superannuation.

In comparison to the significant change in 1983 to the taxing of lump sums, throughout the 1980s the administration of the tax law for superannuation funds was supervised through publications of the Tax Commissioner. This was accomplished through the Tax Rulings system and by notifying professional organisations of how the law was being administered. Subsequently, the administration of superannuation fund operations was transferred from the Tax Commissioner to a newly established organisation, the Insurance and Superannuation Commission (ISC) in the late eighties. The role of the ISC was to supervise the operation of superannuation funds and to determine whether a fund should receive tax concessions if it satisfied the requirements of the legislation. Initially, the ISC took over the administration of the relevant parts of the tax legislation and in November 1987 these responsibilities and others were incorporated as part of the *Occupational Superannuation Standards Act* ("OSS Act"). The main reason for the change in the regulator came from developments in the industrial relations area and the requirement that superannuation was now compulsory for the majority of workers covered by industrial awards.

In 1986, the first attempt to introduce a form of compulsory superannuation contributions via the industrial agreement regimes occurred. Under this arrangement employers were obligated to make a contribution equal to three per cent of salary to a superannuation fund in respect of each employee who was covered by an industrial award or agreement. In a policy sense this initiative was consistent. However, in practice, the level of non-compliance on the part of employers was unacceptably high, plus the mechanism for policing compliance was ineffectual. This lead to the introduction of 'preservation' in December 1986, where all employer contributions were either made under an industrial agreement or award obligations, or as a result of an improvement in benefits and would be required to be preserved until genuine retirement (Peetz, 1985).

In 1988, the government of the day determined that the income of superannuation funds were to be taxed. Prior to that time, providing superannuation funds met the relevant compliance requirements under the income tax rules and/or the OSS Act, the income of the fund was not taxed. However, from 1 July 1988 the income of the fund was taxed at a rate of fifteen per cent if the fund satisfied the compliance requirements under the relevant legislation.

In 1988, there was a complete overhaul of the tax regime applying to superannuation funds, including:

i. Introduction of a 15per cent contributions tax on deductible contributions.
ii. Introduction of a 15 per cent tax on fund earnings.
iii. A reduction in the rate of tax applicable to the post '83 component of an ETP (reduced to 15 per cent).

Notwithstanding the introduction of the new tax regime, superannuation remained the most tax efficient mechanism for the accumulation of wealth, particularly for top marginal tax rate payers. However, in 1996 the federal government introduced a superannuation surcharge regime for 'high income earners'. This regime was later simplified by the introduction of a flat 15% rebate applicable from 1 July 1994 (subject to assessment against the relevant Reasonable Benefit Limit or RBL).

By the early 1990s it was considered that the operation of the OSS Act did not give the ISC the power to penalise trustees of superannuation funds who may have made decisions in breach of the Act. The penalty under the OSS Act was to deny the tax concessions to the fund and tax the fund's income at a penalty rate.

In 1991, Federal Budget papers included a discussion paper on the subject of prudential supervision of superannuation. The release of this paper both foreshadowed the introduction of the *Superannuation Industry (Supervision) Act* 1993 ("SIS") regime which was to come later (1994) and reinforced the policy imperative to ensure that the increasing level of savings through the superannuation system, which the evolving retirement income policy was delivering, would be subject to appropriate safeguards.

These safeguards included:

i. The introduction of the substantially self-employed category—that is a person will be considered substantially self-employed as long as any employment income in respect of which employer financed superannuation is provided accounts for less than 10 per cent of the person's total assessable income.

ii. The introduction of a 10 per cent rebate for up to $1000 of personal superannuation contributions subject to the individual's level of assessable income—often referred to as the low income superannuation income rebate.

iii. The removal of the option for a person to select between either the pre 1983 or post 1983 component when withdrawing an ETP from a rollover fund, meaning, all withdrawals of pre/post components were required to be taken in the proportions defined by the eligible service period.

iv. The introduction of the Superannuation Guarantee Charge regime ('SGC') imposed an obligation on all employers to contribute a minimum prescribed amount to superannuation in respect of all employees. Significant characteristics of the SGC regime include:

- All employees now receive a minimum level of employer support to their superannuation fund, whether or not they are covered by an industrial award or agreement.
- The level of employer contribution, initially set at 3 per cent, was subject to a legislated transitional arrangement which saw the level of employer support for all employees increase to 9 per cent.

- Compliance with the SGC obligation was linked to the tax system, which ensures effective monitoring of the employers' contributions in accordance with this obligation and reasonably material penalties for non-compliance.

Trustees were not penalised under this legislation for their failure to act as required. It was for this reason that in 1993 the SIS was enacted in Australia and continues to be in existence two decades later.

The role of the SIS legislation was to bring superannuation funds and related retirement income vehicles under federal control. Previously, trustees were not held to account under this legislation, however, this position changed with the enacting of the SIS legislation. SIS imposed penalties on the party responsible for the operation of the fund and others associated with matters related to its operation. It also required the trustee to make an irrevocable election for the operation of the fund to be bound by the SIS provisions.

The SIS Act was designed to supervise the superannuation industry and to ensure that there was greater security of superannuation savings. The objective of the legislation was achieved by requiring superannuation funds to have a prudential framework in place. That framework not only ensured that there were restrictions on superannuation funds investing in particular areas and members were notified about their benefits, but that fund trustees also have proper systems in place. Superannuation entities are defined as regulated superannuation funds, approved deposit funds, and pooled superannuation trusts seeking concessional tax treatment.

The SIS Act outlines the conditions with which superannuation entities must comply with to be eligible for taxation concessions. In summary, the SIS Act:

- Contains the eligibility standards for trustees, investment managers and custodians.
- Codifies the basic duties, responsibilities, standards for and obligations of trustees, investment managers, custodians, auditors and actuaries.
- Provides the mechanism for dealing with unclaimed benefits of members who cannot be found.
- Provides APRA with direct enforcement powers to monitor and supervise the industry.
- Provides a regime of penalties for breach of the prudential requirements and obligations under the SIS Act.
- Establishes the Superannuation Complaints Tribunal and the mechanism for resolution of disputes in superannuation matters.

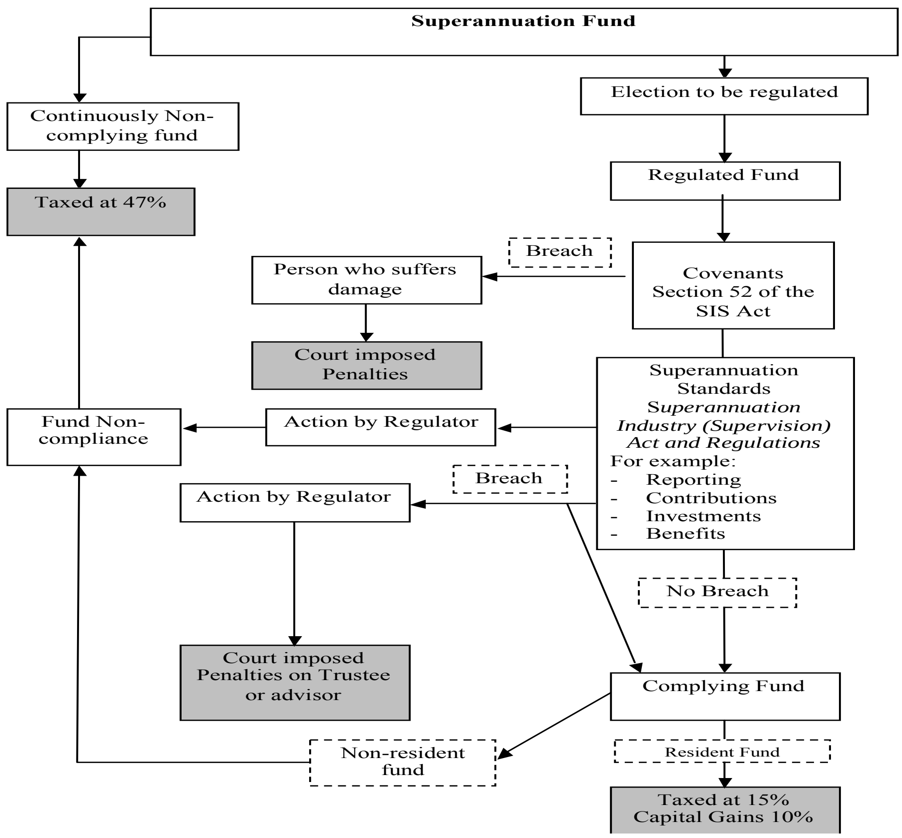

Diagram 1: Eligibility for tax concessions for superannuation funds in Australia.

The basis for supervision is that the funds and trusts are subject to regulation under the Commonwealth's powers with respect to corporations or pensions (for example, because the trustee is a corporation). In return, the supervised funds and trusts may become eligible for concessional taxation treatment. The scheme of the SIS Act that enables a fund to receive the relevant tax concessions is illustrated in Diagram 1 above.

In 1994, in conjunction with the introduction of the SIS legislation a number of changes were made to the income tax legislation. The changes related to contributions to funds and the transfer of rules from the OSS Act, which limited the amount that could be paid for superannuation and retirement purposes, imposed tax at concessional rates. These limits were the RBLs and amounts paid in excess of the relevant limit were taxed at the maximum personal tax rate.

In 1997 as a result of the Wallis Inquiry, a report commissioned to review the Australian financial system, it was recognised that the Australian financial system needed regulatory reform for competition and efficiency reasons. There were a number of recommendations that affected superannuation from the point of view of regulation. First, the role of the ISC, which administered most of SIS legislation, was to be amalgamated with regulators of other financial deposit taking entities to form a new organisation the Australian Prudential Regulation Authority (APRA).

APRA supervises the superannuation, insurance, banking and related industries. Its role was to identify problems that may pose a threat to members' entitlements. This included a wide range of fund operations including the management of the fund and its ability to deal with or avoid problems associated with the operation of the fund.

APRA is the primary regulator of the superannuation industry as a whole. This is as a result of the Wallis Inquiry recommendations. It is responsible for: the administration of the SIS Act; the extensive regulatory and investigative powers, including the power to suspend and remove trustees of superannuation entities; the appointment of acting trustees where necessary, and the power to grant exemptions from, and make modifications to, certain provisions of the SIS Act in respect of a fund.

The Australian Securities and Investments Commission ("ASIC") is another government organisation that is responsible for consumer protection and market integrity. In the superannuation industry this means ensuring consumers receive adequate information so they can make informed decisions about the superannuation products and services that are being offered. ASIC may also prohibit people or organisations from providing superannuation products and advice where the information provided is found to be incorrect or misleading.

In addition, the Australian Tax Office ("ATO") has a number of roles in relation to superannuation that covers a great deal of legislation. The ATO has a traditional revenue collection role for superannuation funds under the income tax legislation. In addition to this role it also has responsibility for the redistribution of superannuation benefits to funds and under SIS, it supervises the operation of self-managed superannuation funds.

The role of each main regulator of superannuation can be illustrated in Diagram 2:

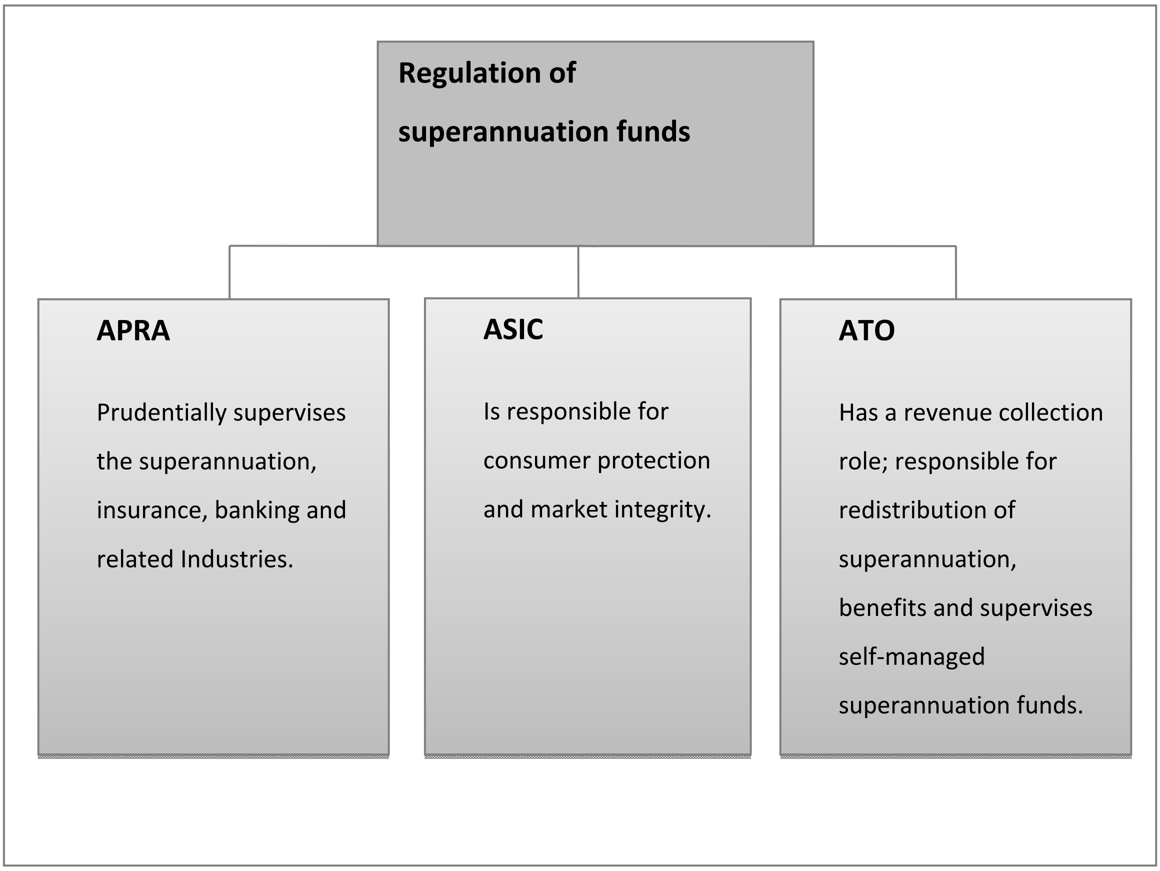

Diagram 2: Regulation of superannuation funds in Australia

In comparison with the dominance of the tax rules in influencing the operation of superannuation funds, little activity occurred on the industrial front in Australia until the 1980's. One of the most significant events in this area occurred in September 1985 when the Federal Labor Government agreed with the Australian Council of Trade Unions (ACTU) that an amount equal to three per cent of a worker's wages would be paid in the form of superannuation as part of a productivity agreement. As a result of this it was estimated that by 1989 about 80 per cent of the workforce would have some level of superannuation coverage. In 1989 the Minister for Social Security, Brian Howe issued *Better Income: Retirement Income Policy into the Next Century* which set out the policy framework for retirement income as seen by the Labor Government of the time.

When the Liberal/National Party Coalition was elected to government in 1996 it continued with the superannuation system consisting of compulsory and voluntary components. This included the age pension, occupationally based superannuation, such as the Superannuation Guarantee and voluntary personal retirement savings. New initiatives such as the co-contribution, expansion of contributions to superannuation, choice of superannuation funds and splitting contributions between spouses expanded the opportunities for people to contribute to superannuation and to increase their wealth for retirement.

The introduction of the superannuation surcharge as an additional tax applying to certain deductible contributions and employer Employment Termination Payments (ETPs), identified an extremely turbulent period in the history of superannuation in Australia. The relevant provisions were subject to a number of technical amendments during the first 18 month period immediately following the original announcement. The High Court of Australia concluded during this period that the surcharge was unconstitutional in relation to State judicial officers (refer to: *Austin v Commonwealth of Australia,* (2003) 215 CLR 195).

The introduction of allowing people to choose funds arising from the proposal outlined in the 1997 Federal Budget announcement (subsequently legislation passed in 2004) was expected to significantly alter the 'superannuation landscape' in Australia. As from 1 July 2005 a person who was covered by certain employment conditions was able to direct his or her employer to contribute superannuation guarantee contributions to a complying superannuation fund or their choice.

In the May 2006 Budget the Liberal/National Party Coalition (LNP) government announced substantial changes to superannuation in '*A Plan to Simplify and Streamline Superannuation*'. The objective of the reform was to make the superannuation system easier to understand, improve incentives to save and introduce greater flexibility in how superannuation savings can be drawn down in retirement. Major changes commenced from 1 July 2007. The main features of the reform included:

1. Lump sums and pensions paid from a taxed source would be tax free to anyone aged 60 or over.
2. Abolition of Reasonable Benefit Limits, meaning that tax penalties on the withdrawal of excessive amounts from superannuation were removed.
3. Removal of the mandatory requirement of the payment of benefits from superannuation on a member reaching a particular age.
4. Changing the rules for tax-deductible and non-deductible superannuation contributions.
5. Allowing self-employed persons access to the co-contributions system.
6. Increasing the amount a small business person can use for superannuation purposes from the sale of certain business assets.
7. Making it easier to transfer superannuation benefits between funds.
8. Changing the rules for employer termination payments.

These changes were intended to make it easier for Australian residents to understand the superannuation regime and encourage individuals to increase the amount of their retirement savings.

When the Labor Party came to power in late 2007 it undertook to retain the superannuation simplification measures introduced by the previous government. In its first budget in May 2008 there were no changes to the superannuation system.

In 2008, a governance review of superannuation and also of financial services legislation– identified:

- There were approximately 385 000 superannuation funds in Australia which controlled about $1.1 trillion in assets (APRA, Mar 2008).
- Enormous growth occurred in the number of funds and the assets they controlled particularly since the inception of SIS.
- The majority of growth in the number of funds has been in self-managed superannuation funds (also known as DIY funds).
- Public offer funds (i.e. usually those promoted by life offices, banks and fund managers) and industry funds controlled approximately $600 billion of the total amount invested in superannuation.

Many government committees have reviewed and reported on the operation of superannuation funds and the tax concessions and exemptions provided for superannuation in Australia. This included the reports of the Spooner Committee, the Ligertwood Committee, the Hancock Report, the Asprey Committee Report, the Wallis Committee, the Henry review of taxation and the recent Cooper review and his introduction of the *MySuper* framework.

With the ever-changing complex environment that the ASI operates within, the new mandatory *MySuper* framework, the cost of providing 'Choice' features and benefits, no longer permit cross-subsidisation among the different plans operating within one superannuation entity. *The Superannuation Legislation Amendment (MySuper provisions) Act* 2012 which received Royal Assent on 28 November 2012, which established the legislative framework for the key aspects of MySuper products from 1 July 2013. MySuper products were eligible as default superannuation funds since 1 January 2014. As a result of the enactment of this legislation, where employees have not chosen a fund, a default funds that offer a MySuper product from 1 January 2014 will be allocated to that employee.

In addition, further legislation was passed in the form of the *Superannuation Legislation Amendment (Further MySuper and Transparency Measures) Act* 2012 (Act 171 of 2012) which provides for the transition of accrued default balances to MySuper by 1 July 2017. The final piece of legislation passed in relation to MySuper, the *Superannuation Legislation Amendment (Service Providers and Other Governance Measures)* Act 2013 (Act 61 of 2013) received Royal Assent on 26 June 2013, pertains to superannuation service providers, contributions to Choice products, taking legal action against trustees for breaches of directors duties, legal defence for trustees, reasons for trustees decisions and other miscellaneous matters. Other features of the MySuper and governance reforms appear in regulations: *Superannuation Legislation Amendment Regulation* 2013 and *Superannuation Legislation Amendment (MySuper Measures) Regulation* 2013.

The ongoing advice required in relation to superannuation issues has become central to the financial planning process both internal and external to the industry. Formulation of financial planning advice (an innovation now offered within this industry by the majority of ASFs) in relation to superannuation assets will often involve consideration of the choice of utilising public offer funds or self-managed funds. The Federal Government has enacted legislation for the implementation of the Future of Financial Advice (FOFA) Reforms and the Stronger Super Reforms.

Licensees such as ASFs, who provide financial advice, are required to implement the new FOFA Reforms. In addition, the Trustees of Australian Superannuation Funds should implement the new Stronger Super Reforms. There is a natural synergy between the legislative provisions for both Licensees and Trustees. The implementation of FOFA Reforms requires mandatory compliance from 1 July 2013[1].

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[1] Regulatory Guide 175 *Licensing: Financial product advisers – conduct and disclosure* has been updated to include guidance about ASIC's expectations for meeting the best interests duty and to ensure that it is consistent with the guidance in Regulatory Guide 244 (Giving information, general advice and scaled advice). Regulatory Guide 244 incorporates guidance that was previously in Regulatory Guide 200 Advice for super fund members (RG 200).

It is important to acknowledge these current reforms as all the participants involved in this research highlighted that financial advice was either presently offered by their fund as a service to its membership or was currently in the planning phase to be offered in the future. The requirements of the FOFA Reforms are outlined in Appendix 1.

The current provisions for advice are required to be in accordance with the Future of Financial Advice Reforms and the Stronger Super Reforms in a manner which is efficient, honest and fair in accordance with section 912A (a) of the *Corporations Act* 2001.

The FOFA Reforms introduced on 1 July 2013 now require a statutory fiduciary duty (rather than the established common law duty) for financial advisers to act in the best interests of their clients.[2] The communication between the adviser and the client is critical to ensuring the best interest duty is discharged. An adviser will be required to scope the necessary advice and to ensure the client fully understands the advice provided and it is properly documented.

The FOFA Reform and Stronger Super Reform requirements regarding implementation through the range of activities are outlined in Appendix 1. The ongoing compliance with the requirements will need to continue after commencement

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Regulatory Guide 244 *Giving information, general advice and scaled advice* makes it clear that advisers will need to make preliminary enquiries to determine the scope of advice being sought and whether that scope is appropriate. If a member seeks advice which is beyond the adviser's authorisation, then it may not be possible for an adviser to give advice on a more limited scope and he or she may need to refer the member to another adviser if they still want further advice or decline to provide advice if the best interests duty cannot be met.
Regulatory Guide 246 *Conflicted remuneration* deals with the application of the FOFA provisions with respect to conflicted remuneration which is any remuneration that could “reasonably be expected to influence” a choice of product or advice which is monetary or non-monetary.
Regulatory Guide 183 Approval of financial services sector codes of conduct outline the approach of ASIC to the exercise of its relief powers and approval of a Code in accordance with the FOFA Reforms.
Regulatory Guide 245 Fee *disclosure statements* outlines the fee disclosure statement (FDS) obligations that will apply to AFS Licensees and their Representatives from the FOFA reforms.

on 1 July 2013 to ensure ongoing compliance is maintained for ASFs that choose to offer financial advice.

SECTION 2: SUPERANNUATION FUNDS IN AUSTRALIA

Superannuation funds in Australia operate as a trust structure. The trustees of the fund are the legal owners of the assets of the scheme held in trust for the members of the fund ("the beneficiaries"). Trustees appoint custodians to hold the assets of the trust in a secure manner. Trustees have common law fiduciary duties in relation to the beneficiaries, for instance: to act honestly; to act in the interests of the beneficiaries; and to act prudently. In addition, trustees have legislative requirements imposed under the SIS Act.

These key requirements from the SIS Act are:

1. Equal membership of employer and employee representatives are mandated on trustee boards of employer sponsored funds.
2. Membership reporting rules require regular reporting to members.
3. APRA is required to approve trustees for public offer superannuation funds.
4. Lodgment of audited annual reports by superannuation funds is mandated.
5. Preservation of benefits is required and balances are not to be paid to contributors until they reach the age of 55 years.
6. Superannuation funds are required to have an investment strategy which allocates contributions to asset classes and which selects individual securities within the asset classes.

What is a superannuation fund in Australia?

A superannuation fund is established as a legal trust in order to provide benefits to fund members or their dependants upon sickness, retirement or death. The term "superannuation fund" is defined for the purposes of the SIS Act as meaning a fund that is an indefinitely continuing fund. The fund is constituted under a trust deed (commonly known as governing rules) and sets out who can be a member, how contributions are to be invested and the conditions under which benefits are paid. The major characteristics of the fund include a separate and identifiable fund of money or investments set aside and invested to earn income or capital growth for the main purpose of providing benefits to members of the fund upon retirement after a prescribed age (Australian Financial Planning Handbook, 2013).

The ASI may be broken down into five different sectors: industry funds, corporate funds, public sector funds, retail funds and self-managed super funds (SMSFs).

Industry funds

Typically, industry funds gain their membership from a particular industry segment (such as hospitality, retail or construction) and have historically been associated with trade unions, where there have been negotiated membership arrangements entered into by the employer and the union. At the time of data collection, industry funds represented seventeen per cent of the total funds under management for the industry.

Corporate funds

Historically, corporate funds have been established by an individual employer for its employees and in 2008, represented five per cent of the total funds under management for the industry.

A ‘standard employer-sponsored fund’ is defined in section 16 of the SIS Act. It is a regulated superannuation fund that has at least one standard employer-sponsor. In broad terms, a ‘standard employer-sponsor’ is an employer that contributes to the fund pursuant to an arrangement between the employer and the trustee of the fund.

In Australia, typically ‘corporate funds,’ and many ‘industry funds,’ are standard employer-sponsored funds.

Historically, when an employee commences employment, that employee will automatically join a superannuation fund of the employer’s choosing. Since member choice legislation was introduced the landscape of default funds has changed and with the Strong Super reforms, employers can only use a superannuation fund that has a default MySuper fund registered with APRA as at January 2014. This process in time will see a reduction in the number of ASFs in the ASI from January 2014.

Public sector funds

These entities are operated by both State and Federal governments on behalf of their employees and at the time of data collection for this thesis comprised 14.5 per cent of the total funds under management for the industry.

Retail funds (Public Offer)

Offer superannuation options to the general public and employers who do not wish to establish an occupational fund. While they comprised 29 per cent of the industry in 2008, it is suggested that this sector will increase considerably with the commencement of the Stronger Super Reforms in 2014.

Self-managed superannuation funds (SMSFs)

There is a variety of considerations that may influence the decision as to when a SMSF approach is appropriate for any individual. Reasons for electing a SMF include:

- desire for complete control;
- a preference for investment in certain assets or asset classes which are not readily available through other types of funds; and
- a belief that fund managers do not add value to your asset portfolio and hence a superior investment return can be achieved in the self-managed fund.

The ATO is the responsible authority for the prudential supervision of self-managed superannuation funds. The ATO (2012) reported the inward rollovers to SMSFs from period June 2006 – June 2012, which highlights a significant switch to SMSFs during the global financial crisis (“GFC’). See Table 1 over the page.

Table 1: Rollovers to Self-Managed Superannuation Funds

There is still a significant swing towards the establishment of SMSFs in Australia. Table 1 reveals the number of rollovers out of existing funds to SMSFs in Australia. During the decade to June 2012, the SMSFs had turned out to be the single largest sector in the ASI. The primary driver of growth within the self-managed sector has been the high value of assets per member that have been rolled over from other superannuation entities to SMSFs since 'choice of fund' was introduced in July 2005. There was a sharp rise in the year 2008 for the establishment of SMSFs.

The changing landscape of the structure of the superannuation industry is best illustrated by the period between June 2004 and June 2012, in Table 2 below.

Table 2: The number of superannuation entities in Australia from 2004 – 2012

Source: APRA 2012

Entities

Number of superannuation entities - trends

	Jun 2004	Jun 2005	Jun 2006	Jun 2007	Jun 2008	Jun 2009	Jun 2010	Jun 2011	Jun 2012
By functional classification									
Corporate	1,405	962	555	287	226	190	168	143	122
Industry	106	90	80	72	70	67	65	61	56
Public Sector	42	43	45	40	40	40	39	39	39
Retail	232	228	192	176	169	166	154	143	135
Small	279,584	296,813	315,924	356,309	381,332	403,899	418,431	444,587	479,091
Pooled superannuation trusts	143	130	123	101	90	82	79	77	67
Total	**281,512**	**298,266**	**316,919**	**356,985**	**381,927**	**404,444**	**418,936**	**445,050**	**479,510**
By regulatory classification									
Public offer super funds	296	265	250	225	216	207	196	183	173
Non-public offer super funds	1,425	994	575	308	249	216	191	164	141
Exempt schemes	17	19	19	20	20	20	19	19	19
Approved deposit funds	258	222	181	155	140	116	107	95	77
Eligible rollover funds	15	16	18	17	16	16	16	16	16
Small APRA funds	7,843	7,108	6,665	6,017	5,539	4,277	3,869	3,519	3,201
Self-managed super funds	271,515	289,512	309,088	350,142	375,657	399,510	414,459	440,977	475,816
Pooled superannuation trusts	143	130	123	101	90	82	79	77	67
Total	**281,512**	**298,266**	**316,919**	**356,985**	**381,927**	**404,444**	**418,936**	**445,050**	**479,510**
By functional and regulatory classification									
Corporate									
Public offer super funds	81	53	40	29	25	19	19	16	15
Non-public offer super funds	1,324	909	515	258	201	171	149	127	107
Total	1,405	962	555	287	226	190	168	143	122
Industry									
Public offer super funds	30	29	43	40	39	39	40	40	38
Non-public offer super funds	76	61	37	32	31	28	25	21	18
Total	106	90	80	72	70	67	65	61	56
Public sector									
Public offer super funds			3	2	3	3	3	4	4
Non-public offer super funds	25	24	23	18	17	17	17	16	16
Exempt schemes	17	19	19	20	20	20	19	19	19
Total	42	43	45	40	40	40	39	39	39
Retail									
Public offer super funds	185	183	164	154	149	146	134	123	116
Eligible rollover funds	15	16	18	17	16	16	16	16	16
Multi-member ADF	32	29	10	5	4	4	4	4	3
Total	232	228	192	176	169	166	154	143	135
Small									
Small APRA funds	7,843	7,108	6,665	6,017	5,539	4,277	3,869	3,519	3,201
Single-member ADF	226	193	171	150	136	112	103	91	74
Self-managed super funds	271,515	289,512	309,088	350,142	375,657	399,510	414,459	440,977	475,816
Total	279,584	296,813	315,924	356,309	381,332	403,899	418,431	444,587	479,091
Pooled superannuation trusts	143	130	123	101	90	82	79	77	67
Total	**281,512**	**298,266**	**316,919**	**356,985**	**381,927**	**404,444**	**418,936**	**445,050**	**479,510**
Retirement savings accounts	10	9	8	8	8	9	6	6	9

The number of superannuation entities is accurate as at 30 June each year. These data include registered superannuation entities (RSEs) and unregistered superannuation entities. The number of superannuation entities include entities in the process of winding up.

Table 2 shows the number of corporate funds declined from 1,405 in June 2004 to 122 in June 2012 compared to industry funds and SMSFs which have grown in size. Industry funds have become significant financial entities in Australia with expanded financial services and in the next decade to 2024, several large industry funds may compete directly with the major four banks in Australia.

The differences between industry and retails funds in Australia are provided in Table 3 below[2].

2. The Australian Financial Planning Handbook 2013 provides a similar comparison for SMSFs, public sector and corporate funds.

Table 3: A comparison between industry funds and retail funds[3]

Points of Comparison	Industry Fund	Retail Fund
Cost of fund	The cost of the fund is the same whether the person obtains advice or invests without advice or assistance.	The cost of the fund is the same whether the person obtains advice or invests without advice or assistance.
Disclosure of fees *From 1 July 2005, all ASFs must disclose costs*	Can have hidden fees – eg. investment management costs are deducted before the net earnings rate of the fund is declared.	Full disclosure of fees both at superannuation fund and underlying investment levels.
Life insurance	Set levels of insurance cover. Many offer a low fixed sum insured. Some permit increases to the sum insured at a cost to the member. Widest variation of premiums depending on age, occupation, sex and whether smoke.	Broader offerings. Can offer a high level of automatic cover. Retail corporate funds provide 2-3 times higher level of cover without evidence of health.
Investment choice within fund *Investment choice can make a difference to the outcome*	Larger range of investment options Direct shares cannot be purchased	A range of investment options Direct investment Unique investments
Administration	Service standard for all transactions.	Service standards for most transactions.
Interactive voice response	Provide up to date account balance.	Provide up to date account balance and unit price.
Frequency of member statements	Only provide annual statements. Many funds provide 6 monthly record of contributions but does **not** include investment earnings.	Majority provide annual statements. Some provide 6 monthly transaction and account balance including investment earnings.
Timing of member statements	Send out within 3 months of end of period.	Send out within 2 months of end of period.
Ongoing monitoring of portfolio	No fund promotion of ongoing monitoring as one of its services	Clients receiving ongoing monitoring service receive benefits such as: - contact with their adviser throughout the year - periodic reviews to ensure financial plan stays current and relevant to economic climate and changing lifestyle -monitoring and active management of investments
Retirement options	Limited to the options available within the fund.	Limited by options available on Approved Product List.

Evidence on the performance of these two types of superannuation funds, was provided for the first time by Coleman, Esho and Wong (2003). Using APRA annual data from 1996 to 2002, the evidence suggested that there were significant differences in outcomes across the different type of funds. For example:

- Returns were highest for corporate funds and lowest for retail funds.
- Retail and industry funds had the lowest returns and volatility and the highest expenses.
- Many funds, particularly retail funds, have failed to outperform the return available from a risk free investment in Treasury notes.
- There was evidence of a negative return between returns and expenses suggesting that fund members receive little advantage from investing in superannuation funds with high expenses.
- Retail funds exhibit potential problems with low returns and high fees.

Statutory duties for trustees of superannuation funds in Australia

Prescribed Covenants set out in the SIS Act

While the Australian government has resisted telling superannuation trustees what to invest in, trustees must invest the funds entrusted to them carefully. Specifically, they must comply with prescribed covenants to make and give effect to an investment strategy that has regard to risk, return, cash flow, diversification, liquidity, tax, costs and the liabilities of the fund.

In addition, the trustees have to exercise due care and act in the best interests of the membership as a whole. There are important prescribed covenants contained in the SIS Act that are applicable for all types of funds within the ASI. Some of these covenants mirror common law requirements of directors in Australian public companies. Given these legislative requirements it is important to move the focus from a traditional perspective of fund governance and trust law to a perspective that focuses around a modern approach to governance and its guiding principles within the context of the ASI. Historically, a superannuation fund inherited its governance procedures from English common law and the trust entities and still remains an important reference point for superannuation funds trustees (Ellison, 2002). The trust institution provides superannuation funds with a generic form. There are different types of superannuation funds; governed by a single trustee; governed by sponsor-nominated trustees; governed by a mix of sponsor and beneficiary representatives; including independent and professional trustees. There are both private and public funds and funds may vary according to the nature of the benefits offered: defined benefits, defined contributions and hybrid versions.

The SIS Act outlines various statutory requirements in respect to the appointment and removal of trustees, investment managers and custodian. Part 6 of the SIS Act prescribes requirements in relation to the content of the governing rules of superannuation entities. Given the mandate of each fund when established, and given the presumption in favour of supervision instead of direct regulation, trustees have wide ranging powers consistent with the English common-law trust entities (Langbein, 1997). In Australia, trustees must act in accordance with the covenants set out in the SIS legislation. These covenants are provided for two main reasons: firstly, to understand broadly what trustees' responsibilities are and secondly to highlight how tightly legislated the industry is.

The SIS Act requires that the governing rules of a regulated superannuation fund must either contain, or is deemed to contain, certain covenants (s.52). Section.52 statutory covenants require the trustee of a superannuation fund in Australia:

1. ***'To act honestly in all matters concerning the entity.'***

This is a fundamental duty of a trustee under trust law—that is to act honestly and in good faith in all matters in relation to a trust and all beneficiaries.

2. ***To exercise, in relation to all matters affecting the entity, the same degree of care, skill and diligence as an ordinary prudent person would exercise in dealing with property of another for whom the person felt morally bound to provide.***

This is an objective test on the standard of care required of the trustee in all matters relating to a fund, including the matters specifically set out in the SIS Act. A trustee is therefore not assessed on the basis of the trustee's own skills or experience (the subjective test) but is required to exhibit in the performance of its duties a standard of care, skill and diligence to equate with the objective standard that might be expected of an ordinary prudent person in the position of being a trustee of a superannuation fund.

3. ***To ensure that the trustee's duties and powers are performed and exercised in the best interests of the beneficiaries.***

This requires the trustee, when exercising its powers and duties, not to compromise the interests of the beneficiaries in favour of other parties (e.g. a purchaser of an asset being sold by a fund) or the trustee's personal interest. The promise to act in the best interests of the beneficiaries also implies that the trustee will act impartially between beneficiaries, not favouring one over another.

4. Not to enter into any contract, or do anything else, that would prevent the trustee from, or hinder the trustee in, properly performing or exercising the trustee's functions and powers.

This does not prevent the trustee from engaging or authorising persons to do acts or things on behalf of the trustee (s.52 (3)). However, the trustee remains liable for any acts or omissions by the delegates of the trustee.

5. To formulate and give effect to an investment strategy that has regard to the whole of the circumstances of the entity including, but not limited to, the following:

i. The risk involved in making, holding and realising, and the likely return from, the entity's investments having regard to its objectives and its expected cash flow requirements.
ii. The composition of the entity's investments as a whole including the extent to which the investments are diverse or involve the entity in being exposed to risks from inadequate diversification.
iii. The liquidity of the entity's investments having regard to its expected cash flow requirements;
iv. The ability of the entity to discharge its existing and prospective liabilities.

In addition, there are more general duties that impose qualities of decision-making that are relevant in the investment context. These include covenants that the trustee will *exercise, in relation to all matters affecting the entity, the same degree of care, skill and diligence as a prudent superannuation trustee would exercise in relation to an entity of which it is trustee on behalf of the beneficiaries of which it makes investments.*

Where trustees are responsible for the new MySuper (default) product, they are specifically required to *promote the financial interests of the beneficiaries of the fund who hold the MySuper product…*

The SIS Act requires that a fund has an investment strategy and that the strategy is implemented. Failure to have a strategy or to implement that strategy will be construed as a breach of the investment covenants and may invoke the penalty provisions of the legislation. The main aspects of formulating an investment strategy are to consider the risks involved in making, holding and realising the investment returns, cash flow, diversification or lack thereof, liquidity and the ability of the fund to discharge its liabilities as they become due. Providing the trustees of an ASF can justify the position they have taken then they will meet the investment strategy requirements.

An investment strategy is taken to be in accordance with this covenant if it provides for beneficiary choice, which allows a specified beneficiary or a specified class of beneficiaries to give directions to the trustee where:

- The directions relate to the strategy to be followed by the trustee in relation to the investment of a particular asset or assets of the entity.
- The directions are given in circumstances covered by the SIS Regulations.

This legislative requirement in respect of investments needs to be made on an 'arm's-length' basis. For instance, the transaction needs to be commercially orientated.

The 'Sole Purpose Test' requirement for trustees set out in the SIS Act

Finally, the all-encompassing duty of the fund is the 'sole purpose' of providing retirement benefits to members.

The 'sole purpose test' is raised here to highlight that trustees within this industry are mandated to make decisions for the ASF in conjunction to this test. The sole purpose test ensures that a superannuation fund that has elected to be regulated is maintained solely for one or more of the 'core' purposes and may be maintained for one or more of the 'core' purposes. The 'sole purpose test' requires the fund to be exclusively maintained for core or, where relevant, ancillary purposes. The governing rules for superannuation funds in Australia grant the trustee power to provide a wide range of benefits for members. Trustees are individuals that are appointed to the fund to represent the beneficiaries' interests, which is in keeping with trust law principles and modern day fiduciary duties of their role.

Where there has been a failure of funds to meet the requirements of the 'sole purpose test' it has usually been based around the use of the fund solely for purposes other than the provision of core and/or ancillary benefits to members or their dependants. Examples of the failures by trustees include whether a particular investment of a fund has been solely maintained to provide benefits that satisfy the sole purpose test. Another example was the Swiss Chalet case (Case 43/95, AAT Case 10301) where it was decided that the assets of the particular fund, which were used by the members for ostensibly private purposes, were not maintained solely for superannuation purposes.

The case of Raymor Contractors v FC of T 91 ATC 4259 is an example of where the ASF was used as a cheap source of working capital for the sponsoring employer rather than intending to provide superannuation benefits to fund members. It is now considered that a fund that owns shares in a company that provides discount shopping facilities at minimal cost would be in breach of the 'sole purpose test'. However, where there is no cost to the fund then it is acceptable as the benefit is merely incidental to the fund owning the shares.[4]

Other issues relating to the 'sole purpose test' also concerned a superannuation fund advertising to attract new members due to the commencement of the choice of fund legislation. The issue here was whether the fund was solely providing the required benefits to members or whether the fund was using its resources for purposes not related to the current member's interests. This 'sole purpose test' is important in the context of trustee decision making and innovation, which will be explored in the Discussion Chapter as it plays an important part in the role of the trustee and the findings for this research.

Despite the fact that the legislation requires superannuation fund trustees to satisfy a 'sole purpose test' there is no prohibition on funds having an equitable interest in suppliers of ancillary services such as financial planning, insurance or legal service provided that the investment is considered justifiable on financial grounds by the trustees and approved by APRA as part of portfolio allocation. Examples of these ancillary services will be highlighted in the Results Chapter.

There is a general law requirement that the trustees of a superannuation fund exercise its investment power for a 'proper' purpose which is defined narrowly, as being for the purpose for which the power was granted. The proper purpose within this context is to achieve the financial objectives of the fund. The question as to whether the investment power can be exercised properly can create issues where there is an additional or subsidiary purpose.

[4] Other cases include APRA v Derstepanian [2005] FCA 1121 (purchase of assets at an inflated price from an employer-sponsor); Re Montgomery Wools Pty Limited as trustee for Montgomery Wools Pty Limited Super Fund v. Commissioner of Taxation [2012] AATA 61 (supporting a family owned business).

SECTION 2: EMERGING SUPERANNUATION INDUSTRY TRENDS WITHIN AUSTRALIA

The ASI is a fundamental element of the Australian financial sector and the broader Australian economy. The number and proportion of Australians drawing pensions from superannuation funds has increased substantially in recent years. The proportion of the total population of pensionable age is approximately 23 per cent, and growing strongly. Treasury estimates that the number of people receiving some form of superannuation pension will roughly double to 1.4 million by 2035.

As at 2012, the industry accounts for twenty one per cent of total Australian financial sector assets. Superannuation assets are now approximately 120 per cent of the Australian share market capitalisation and 90 per cent of Australia's annual gross domestic product. These assets grew by 10.5 per cent per annum in the decade to June 2012, increasing from approximately $500 billion to $1.4 trillion.

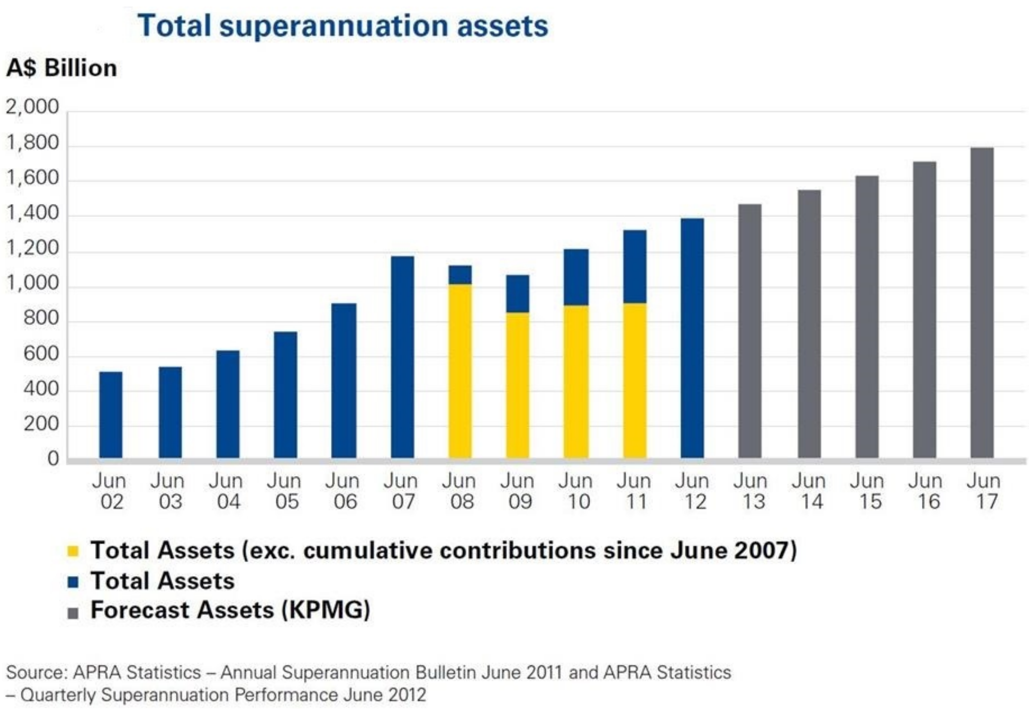


Diagram 3: Total superannuation assets in Australia

Diagram 3 outlines the total assets in the ASI and future forecasts for total assets within this industry as at June 2017. Today, the average size of superannuation entities (measured by assets) is approximately $2.6 billion as at financial year ending June 2012.

With increasing competition within the ASI and the introduction of new legislative requirements in respect to FOFA and Strong Super reforms, it became important for superannuation entities to consider reviewing their strategic plan and their strategic direction to allow continued growth and maintenance of their assets and membership were important. Factors such as the ageing population, the growth of the SMSF sector, potential growth in the size of competitor entities and the consequences of the upcoming 'Stronger Super' reforms, will have an impact on the current landscape. One way in which the financial sector plays a key role in assuring good corporate governance is by creating competition among fund markets. Through competition, an efficient allocation of capital (investment strategy) on a continuous dynamic basis should be achieved.

To remain competitive within this industry over the next decade, from the start of the new financial year 1 July 2014, superannuation entities in Australia should consider:

- Reviewing their product offerings from a strategic perspective.
- Consider a possible merger with other superannuation entities, or:
- Collaborate resources with other entities preferably within the same sector, (as witnessed action already taken by several industry funds.)

Superannuation entities that are unable to strategically adapt to competitive pressures from SMSFs and other more efficient superannuation entities will face the issue of diminishing assets and eventual decline of their assets fund.

Table 4 below highlights the growth in the superannuation industry's share of total financial entities assets from June 2002 – 2012. In 2002 superannuation was fifteen per cent of the overall share of the total financial entities assets and in 2012 it had increased by six per cent to twenty one per cent.

Table 4: The superannuation share of financial industry assets in Australia

Share of total financial institution assets

	ADIs	RFCs	Life Insurance	Superannuation	Other managed funds	General insurance	Securitisation vehicles
Jun 2002	49%	9%	9%	15%	9%	4%	5%
Jun 2008	55%	6%	5%	18%	8%	3%	5%
Jun 2009	60%	5%	4%	17%	7%	3%	4%
Jun 2010	60%	4%	4%	19%	7%	3%	3%
Jun 2011	60%	4%	4%	21%	6%	3%	3%
Jun 2012	61%	3%	4%	21%	5%	3%	3%

Source: B1 Assets of Financial Institutions, Reserve Bank of Australia, October 2012

The ASI grew by approximately 10.5 per cent per annum, increasing from approximately $500 billion to $1.4 trillion over the decade to financial year ending June 2012.

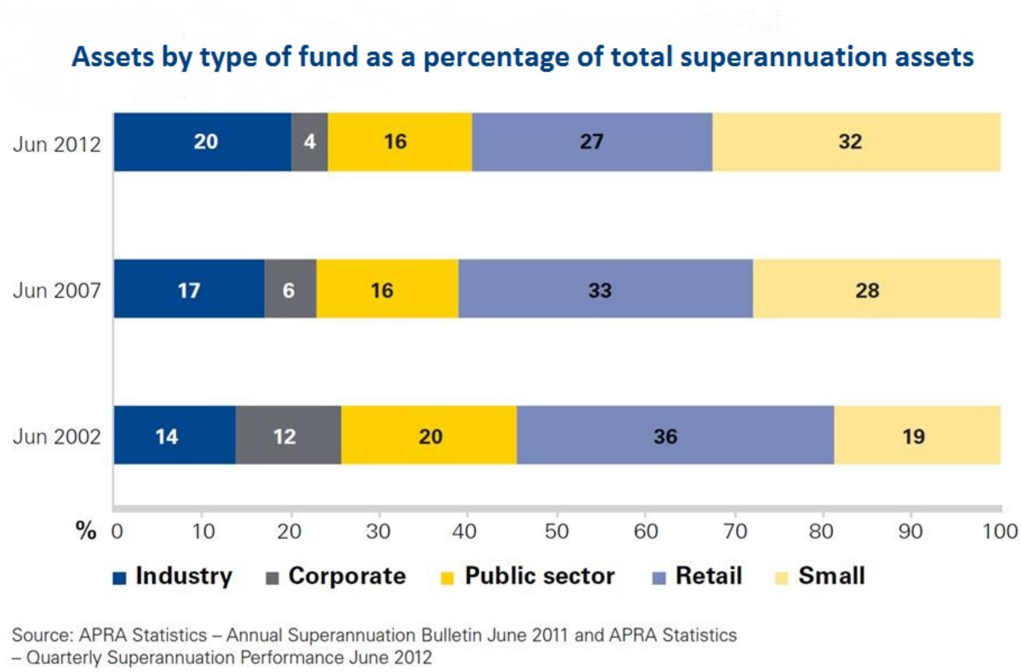


Diagram 4: Assets by type of fund as a percentage of total superannuation assets

Diagram 4 outlines the distribution of assets by segment, as a percentage of total assets held within the ASI and shows that it has changed dramatically in the past decade to June 2012. SMSFs have become the single largest segment in the industry. Approximately, one third of superannuation assets now reside in SMSFs. The industry funds sector also acquired a greater share of superannuation assets over the same period, growing from approximately 14 per cent to 20 per cent of total superannuation assets, than the other three sectors within the industry.

Table 5: Consolidations

	Actual Jun 2002	Jun 2007	Jun 2012	Forecast Jun 2017
Corporate	2,484	287	122	77
Industry	134	72	56	49
Public Sector	76	40	39	39
Retail	254	176	135	108
SMSF	226,859	348,785	481,957	701,620

Source: APRA Statistics - Annual Superannuation Bulletin June 2011 and APRA Statistics - Quarterly Superannuation Performance June 2012

Table 5 highlights a growing trend towards consolidations of superannuation entities in Australia, and the forecast is to continue to June 2017 due to the recent legislative reform mentioned earlier in relation to Stronger Super reforms.

With the ever-changing, complex environment that the ASI operates within, the new mandatory *MySuper* framework no longer permit cross-subsidisation among the different plans. One strategic option remaining for superannuation entities to attract and retain members' assets and contributions, is to become more cost competitive and by reducing total costs per member. This strategic objective would be achievable through an increased emphasis on operational efficiency, by either a merger with another more operationally efficient superannuation entity or to collaborate with other entities in that sector, which is evident within the industry fund sector.

The ASI has witnessed successful collaboration strategies by industry funds across a wide range of activities which will be outlined in the Results Chapter. Collaborative strategies will also be discussed in the Discussion Chapter. In summary, they include: administration of member accounts; investment activities including managing investments; and retirement product provisions, governance activities and finally political lobbying activities (Brown and Davis, 2009).

Diagram 5 below has been included in this section to highlight the significance of *Australia's Investment Fund Assets Pool in the Australian Trade Commission's Benchmark Report 2010* by Maragiannis and Giovas (2012).

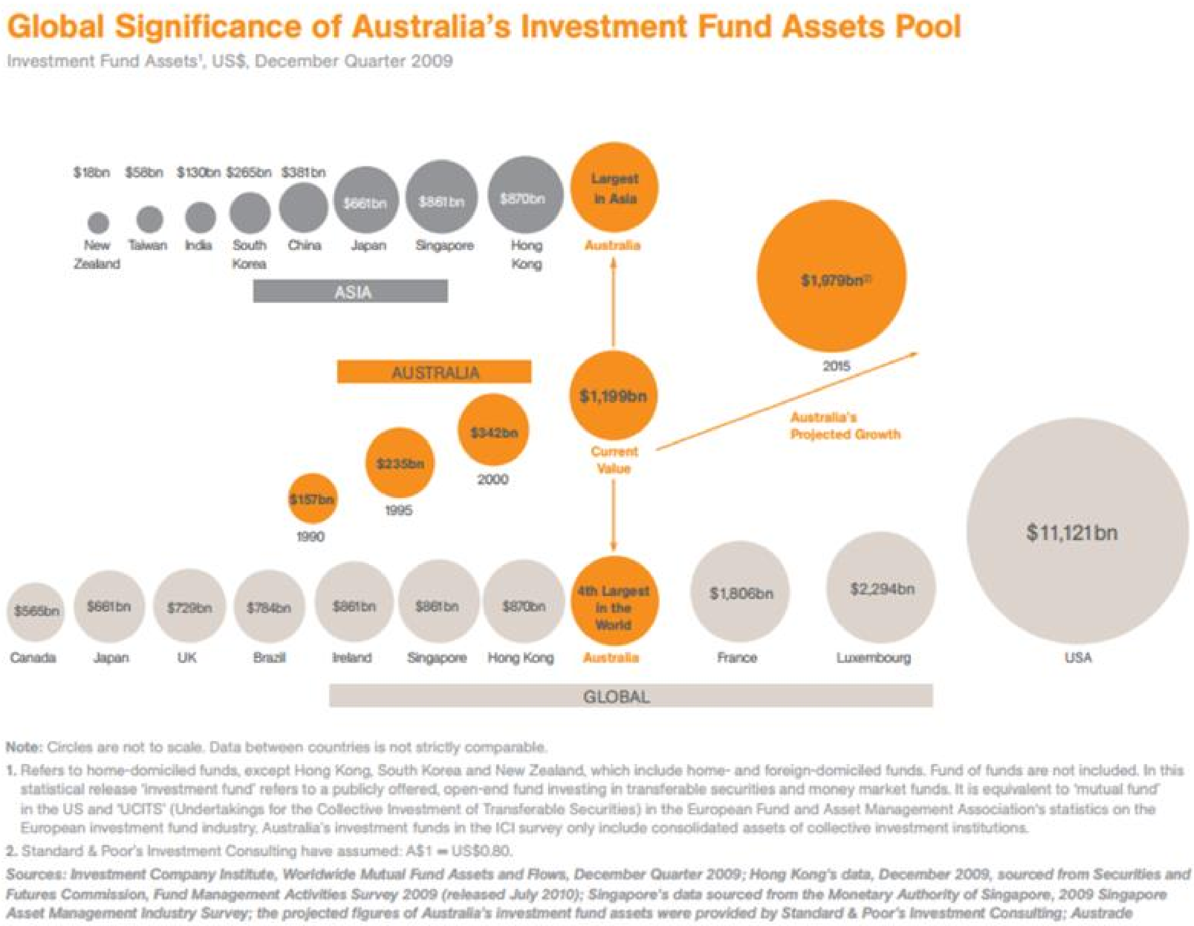


Diagram 5: Global significance of Australia's Investment Fund Assets Pool

Financial Market Summary for the ASI at August 2008

By way of background, the shape of the financial markets at August 2008 in Australia is outlined to understand the context of the ASI environment at the time of data collection.

The financial markets were best described as tumultuous. Markets resumed their downward slide during September 2008 as the problems with the US banking and insurance sectors became evident. Global inter-bank lending came to a standstill after the Lehman Brothers collapse. The US government committed $700bn to a Troubled Assets Relief Plan designed to provide capital to the banking system. The UK government announced that they would purchase a stake in the troubled banks to calm markets.

Fears had moved away from the credit crisis to a more general concern in relation to the austere outlook for the global economy. A global recession appeared inevitable with the majority of developed economies experiencing several quarters of negative growth, and emerging economies slowing down, as evidenced by slowing Chinese growth.

After the falls in markets witnessed in September and October 2008, the valuation measures entered extreme territory fostered by fear and panic rather than rational assessment of the likely impact on corporate earnings and dividends (Mercer, 2008).

The ongoing credit crisis and fears of a global recession weighed heavily on the performance of Australian and international listed property trusts, with both posting falls in the last quarter to 2008. Appendix 2 provides very detailed charts produced by Mercer for Fund 15 on the global equity market performance, equity market valuation, emerging markets, resource sector, property sector, small companies sector, monetary policy, bond markets, corporate bond market, currency, global growth, inflation, earnings and risk warnings, which provides insight into the tumultuous landscape that trustees within the ASI had to make decisions in.

Conclusion

There is a new competitive landscape in which the fundamental nature of competition is changing. The new landscape challenges those responsible for making effective strategic decisions to adopt a new mind set (Hitt, Ireland & Hoskisson, 2014) that is global in nature. Through this mind-set, trustees of ASFs must learn how to compete in a highly turbulent and uncertain environment.

Superannuation statistics by ASFA for January 2014, report that during 2012-13 industry funds' assets increased by 21.5 per cent, public sector funds' assets increased by 15.4 per cent, retail funds' assets by 13.9 per cent, small funds' assets including SMFs increased by 15.5 per cent and corporate funds' increased by 9.1 per cent.

This chapter focused on a broad historical perspective of the superannuation environment in Australia. It also provided an analysis of the current law governing the operation of Australian superannuation funds; the prudential supervision of superannuation funds in Australia; an understanding of the types of superannuation funds available in Australia, some aspects of regulatory compliance which face trustees and an analysis of the prudential standards, particularly the investment standards, governing the industry.

The next chapter will introduce the concept of corporate governance within the context of the ASI and draw out from the literature on corporate governance.

Chapter 2: A Corporate Governance Framework within the Context of the Superannuation Industry in Australia

Introduction

Corporate governance should be linked with the direction and performance of an organisation. Monks and Minow (2004) refer to a tripod of participants in governance: shareholders[5], management (led by the chief executive officer) and the board of directors. The recognition that a board of directors (or trustees) is essential in the definition of corporate governance is important because boards are important to both the accountability of the organisation and the compliance regime.

To date, the impact of boards has been studied from a variety of theoretical perspectives, which has resulted in a number of competing theories concerning corporate governance. These theories include: Agency; Stewardship; Resource Dependency; Shareholder and Stakeholder. Other less dominant theories include: Cybernetics; Financial (derivate of shareholder theory); Intellectual capital; Managerial hegemony; Network governance; Organisational behaviour; Political; Power; Resource based; Transaction cost; and Population-ecology. Scholars from organisational theory (Johnson, 1997) strategic management (Boyd, 1995), sociology (Useem, 1984), finance (Fama, 1980), economics (Tirole, 2001; Jensen and Meckling, 1976) and law (Richards and Stearn, 1999) have all contributed to the corporate governance research platform[6].

[5] In the context of the ASI, "shareholders" in this tripod would be substituted for "members" of an ASF.

[6] From an international perspective on corporate governance there have been significant legislative reforms, in particular in countries such as the United Kingdom (UK) and United States of America (USA). In the UK, corporate governance standards are clearly set out in the Cadbury Committee (1992), Greenbury Committee (1995), Hampel Committee (1998), LSE (1998) to protect shareholder's interests. In the USA, the Round Table (1997) and The Sarbanes–Oxley Act of 2002[6] set new or enhanced standards for all U.S. public company boards to observe.

From the outset it should be recognised that ASFs[7] are subject to many of the same governance problems of other modern organisations (Jensen, 2005 and Clark, 2006). The challenge of governance within the global superannuation industry is greater than that of the majority of modern organisations as funds also operate in global financial markets where the management of risk and uncertainty is critical to the creation of long-term value.[8] Stewart and Yermo (2008:7) recognised that "Good governance can also bring benefits to pension funds… The stronger the governance of the fund, the better risks (such as operational, investment risk) will be managed and controlled. Better corporate governance can also enhance investment returns"[9]. Yet, Evans, Orszag and Piggott, 2008) note that there have been "plenty of disappointments in fund governance".

In the USA, the introduction of the Sarbanes-Oxley legislation was designed to improve the governance and accounting standards of American companies, however, this legislation left pension funds and their issues untouched (Evans, Orszag and Piggott, 2008) and this legislation was a heavy handed approach to solve underlying governance problems. The potential implications of pension legislation are concerning because the levels of capability and expertise to develop and implement legislation are so much more limited. The Watson Wyatt survey in 2007 discovered that pension fund governance is a big issue for the majority of multinationals because of the underlying risks.

Within the overall direction and performance of an organisation, corporate governance should not be a hindrance to innovation. The board should drive innovation strategically as an important issue for sound ongoing business. Drucker recognised that innovation is a vital part of any responsible director's role as; "It endows resources with a new capacity to create

[7] Commonly referred to in other countries as pension funds or pension plans. Hereinafter are referred to as a superannuation fund for the purposes of this research.

[8] Clark and Urwin's research on the schematic of corporate governance budget and risk budget demonstrated that the governance challenge here is to function efficiently in the fast changing risk domain, adapting effectively to market signals.

[9] The impact of governance from good to bad may be as high as 100 to 300 basis points per year (Ambachtsheer, 2007a: Watson Wyatt, 2006) within the superannuation industry in terms of the fund's investment performance.

wealth" (1985: 27). Unless innovation is recognised as being part of responsible business practice, blinkered application of corporate governance has the potential to stifle it. The King Committee on Corporate Governance (2002) Report conducted in the UK acknowledged this conflict, noting that the board of directors should aim to conform to corporate governance constraints while at the same time performing in an innovative and entrepreneurial way.

Despite universal interest in corporate governance, there had been very few studies on the conduct of boards and directors (Pettigrew, 1992b). For the purposes of this research, the board of trustees of an ASF represents the major element of the corporate governance framework within this industry.

Definition of Corporate Governance

One of the fundamental issues involved in corporate governance research is a basic definitional problem. Many definitions of 'corporate governance' or related concepts in the literature of the subject matter are not definitions at all, and could be described, at best, as simply descriptive statements informing what corporate governance may "include", or "may do", and the like. Often these quasi-definitions appear in authoritative academic literature such as the Journal of Finance where Schleifer and Vishny (1997) considers corporate governance as the set of methods to ensure that investors suppliers of finance, shareholders, or creditors get a return on their money.

Sir Adrian Cadbury's definition of corporate governance is the most fitting for this research. 'Corporate governance' is defined as "the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies, ensuring that they are well run" (1992:2). Within the context of the ASI, it is ensuring that the board of trustees govern the ASF in the best interest of the membership, within the ambit of current legislative requirements. The significance of corporate governance was captured in a broader definition authored by Sir Adrian Cadbury (2004) who noted that the governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources.

In governance theory, one of the main challenges for leaders today is to maintain the board's key role in the governance system (Demb and Neubauer, 1992) and it is recognised by this researcher as a major challenge moving forward for boards of ASFs. The clear ramifications for governance of a superannuation board from an agency perspective is that adequate monitoring or control mechanisms need to be established to protect the members of the fund from management's conflict of interest – the so called agency costs of modern capitalism (Fama and Jensen, 1983). This research supports the notion that in most instances, the board of trustees of an ASF is an important mechanism to alleviate agency problems in principal-agent relationships.

One of the main challenges of the board is to alleviate agency problems. Regular and close monitoring is required by a governing board to ensure that the management is conforming to the interests of the organisation or the fund's membership. Trustees or directors are responsible for the development and the implementation of internal control mechanisms that align the interests of the management with the owners of the organisation, including control over innovation (Fama and Jensen, 1983; Walsh and Seward, 1990).

Clark and Urwin (2008) examined pension funds in the UK and observed that pension beneficiaries (principals) are unable to monitor the actions of fund administrators and trustees (agents), which is problematic in itself. Further, there is an extensive network of agents (such as investment or fund managers) whose motivations and rewards may be difficult to align and impossible to observe (Black, 1992).

Table 6: Principal and Agent problems in the ASI

	Principal	Agent	Action	Contract ant remuneration
1	Member (SG)	Employer	Selects fund and selects trustee.	• None Possible
2	Member (award)	Industrial tribunal	Selects fund and allows union to operate fund.	• None Possible
3	Member	Trustee	Runs fund, incurs costs and selects portfolio.	• Trustee determines own remuneration and trust expenses; • cannot be removed by members; • may be removed by regulator under extreme conditions; and • is not explicitly required to disclose remuneration and expenses in detail to members.
4	Trustee	Asset consultant	Runs fund, incurs costs and selects portfolio.	• Contract allows for removal by trustee; and • remunerated by fee as percentage of assets under management.
5	Trustee	Funds manager	Implements portfolio and asset selection.	• Contract allows for removal by trustee; and • remunerated by fee as percentage of assets under management

Source: Drew and Stanford (2003) Principal and Agent Problems in Superannuation Funds. Australian Economic Review. 36 (1), 98-107.

In Table 6, Drew and Stanford (2003) outline briefly the principal and agent problems within the context of the ASI. The third row of the above Table illustrates that members of the fund are not involved in the decision on the determination of trustees' remuneration or expenses and have no incentive to incur monitoring costs because the expected benefit is zero. Trustees remain at 'arm's length' to members. In the fourth and fifth rows, the trustee is in a position to influence the behaviour of the agents. An important role of both asset consultants and fund managers within the ASI is to be 'trustee managers' with the aim to influence trustees to accept the conventions of the industry. Uncertainty within this industry is also a powerful force that encourages imitation by so called 'trustee managers.' Also a major problem this industry faces is that trustees of superannuation funds are more than likely to persist with under-performing funds managers (Drew and Stanford, 2003).

Members of superannuation funds, "are unable to select their agent, are unable construct the contract under which the agent operates and are unable to replace the agent for inferior performance. Members of superannuation funds experience averse selection and moral hazard problems and find that their superannuation fund produces a low return, high cost and inefficient result" (Drew and Stanford, 2003:9).

Since these researchers have published their work, it has become out-dated with the employee choice of fund (as recommended and implemented by the Wallis Committee, 1997). With the introduction of member choice in Australia, it allows for employees to select their own agent to nominate and monitor the fund for their contributions; they have the ultimate sanction of withdrawing and transferring their balances. This would appear to create an incentive for trustees to be responsive to members' wishes and to be more accountable for their decisions (Drew and Stanford, 2003) yet this change has been slow due to inertia with members (ASFA, 2008).

In summary, principal and agent issues faced in the superannuation industry are not dissimilar to those faced by shareholders of publically listed companies globally. Within the superannuation context, the major problem centres around the fact that, for contributors/members[10] of any superannuation fund, there is little control over decisions made in relation to their benefits or the agents who make these decisions. Trustees who are the legal owners of the assets of the fund are required to act in the interests of the beneficiaries as they make decisions.

The current structure of superannuation funds in Australia, "leads to poor corporate governance; poor investment decisions by trustees; lack of disclosure by trustees to members; absence of arm's length investments by trustees; failure to address member complaints; poor consumer protection for members; inadequate prudential regulation of superannuation funds;

[10] The aim of a member of an accumulation fund is to maximize the accumulated benefits at the date of retirement in order to purchase the highest value annuity or pension. This aim is achieved by gaining the highest crediting rate (i.e., the highest net returns) consistent with a given degree of risk (Drew & Stanford, 2003).

lack of competition in the superannuation industry; and a lack of market discipline on superannuation funds," (Drew and Stanford, 2003:11).

Corporate Governance framework

This chapter will now outline a corporate governance framework by Kiel, *et. al.,* (2012) and then discuss both the internal and external influences (variables) that may impact on the Corporate Governance framework in relation to an ASF. Key elements of corporate governance include: organisational structure; CEO influence; board behaviour; board composition.

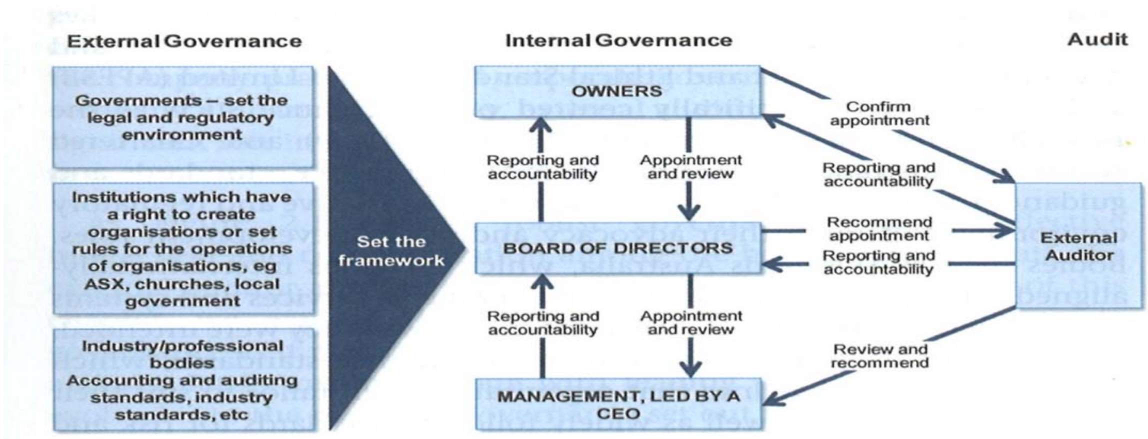


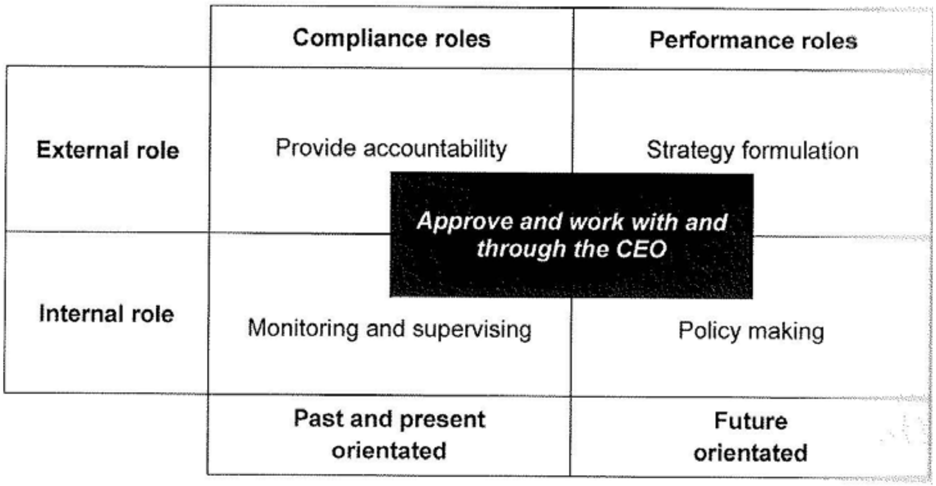
Diagram 6: Corporate Governance Framework, Governance in the 21st Century

Source: Keil, G., Nicholson, G. Tunny, J.A. Beck. J. (2012). Directors at Work: A practical guide for Boards. Thomson Reuters: NSW.

Diagram 6 is particularly relevant in the context of the ASI. The owners are substituted for the collective membership of the fund and the board of directors can be substituted for the board of trustees within this framework. Good governance within the ASI also requires effective interaction and communication among all participants both the board of trustees, management, CEO, and industry stakeholders such as APRA, auditors and the membership.

Internal influences

1. *The role of the board*



Source: RI Tricker 1994, *International Corporate Governance: Text, Readings and Cases*, Prentice Hall, Sydney, p 149.

Diagram 7: Tricker's model of corporate governance

Tricker's model of corporate governance in Diagram 7 provides a good starting point to examine the role of the board. The various roles of trustees include: compliance through the monitoring of the fund; self-regulation of individual trustees and the board's collective performance, which includes both strategy formulation and policymaking. These factors have an impact on whether or not innovation is driven at the board level in an ASF.

The board of trustees is an important internal governance mechanism. The board with its mix of skills, experience and expertise, independence and legal power is a powerful governance mechanism (Li, 1994) there to protect the interests of the members. Conversely, Hill and Snell (1988) view the board as a 'rubber stamp' which serves only to legitimise management decisions.

2. Board structure

Board structure concerns the size of the board, board appointments, skill sets and is important in the effectiveness of a board determining the ability of the board members to work together (Kiel, *et al*. 2012).

This research is based on the assumption that the board structure could directly or indirectly influence innovation. Research to date has focused primarily on the size of the board and the distinction between executive and non-executive directors.

Structures, membership composition and processes of the board of trustees are central to the governance of the fund, the accountability of the fund and the way the fund complies with the legislative requirements set out in the SIS Act and other prudential legislative requirements relevant to the ASI.

Demb and Neubauer (1990:156) acknowledge "there is no "perfect" structure for a board. Each organisation must put a board in place with a composition and shape – tailored to fit its legal environment, the company's size and development stage, and the personality of its Chairman and CEO." Similarly, Keil, *et al.* (2012:201) acknowledges that, "no one particular board structure will impact corporate performance more favourably than another structure." The structure of each board should be determined by the characteristics of each entity. Appendix 3 has been included to outline the various board roles such as monitoring and ratifying role (Bosch, 2005), supervisory and management function (Demb and Neubauer, 1992b) and strategic and control roles of directors identified by leading international academics.

The different attributes of the board structure are reviewed below:

i. ***Size:*** Clark (2004) argues that size is a real hindrance on governance capacity and performance. Research by Jensen (1993) recommends a limit of eight directors as any larger number will interfere with group dynamics and inhibit board performance and a larger board brings greater level of bureaucracy. Dalton, Johnson and Ellstrand's (1999) viewpoint was less definitive noting that it is not the size of the board that is critical, in relation to governance, but rather the number of outside members of the board. Notwithstanding this viewpoint, Keil *et al.* (2012) notes that the key consideration should be around whether there are enough directors to provide the skills that the board needs at the boardroom table.

ii. ***Board composition:*** Research suggests that board composition does matter and contradicts earlier research by Galbraith, (1967) and Mace, (1971). Dalton, Daly, Ellstrand and Johnson (1998) note that the board's composition and leadership structure can influence a variety of organisational outcomes (Baliga, Moyer and Rao, 1996; Beatty and Zajac, 1994; Daily and Dalton, 1994a, 1995; Donaldson and Davis, 1991; Simison and Blumenstein, 1995)[11]. Factors such as culture and ownership structure impact on board composition (Kiel, *et al.* 2012). Related studies on the issue of the diversity of boards of directors, and other have identified that the large majority of directors are white males from a managerial or professional background in their fifties or sixties and that a number of observations could be made about their personalities, including a personality profile to be much less risk averse than a diverse board (CAMAC Report, 2009).

iii. ***Trustee skill set:*** Trustee competence is gained from experience, skills, attitudes and knowledge (Kiel, *et al.* 2012). For the ASF board, competencies of the trustees matter. Behavioural competencies also influence the relationships around the boardroom table, in particular, between the board and management and between trustees or directors (Kiel, *et al.* 2012).

Table 7 below provides insight into the sorts of expertise available by different types of directors or trustees. Notwithstanding, research by Thomas, Kidd and Fernandez-Araoz (2007) found that after investigating over 100 boards over a five-year period, many boards lack competent members.

[11] This is evident in my findings, that the Board can directly or indirectly drive innovation at a strategic level if it chooses to.

Table 7: Expertise of different type of directors or trustees

The resource dependence roles of directors

Director category label	Areas of resource needs provided	Types of directors in category
Insiders	• Expertise on the firm itself as well as general strategy and direction • Specific knowledge in areas such as finance and law	• Current and former officers of the firm
Business experts	• Expertise on competition, decision making and problem solving for large firms • Serve as sounding boards for ideas • Provide alternative viewpoints on internal and external problems • Channels of communication between firms • Legitimacy	• Current and former senior officers of other large for-profit firms • Directors of other large for-profit firms
Support specialists	• Provide specialised expertise on law, banking, insurance and public relations • Provide channels of communication to large and powerful suppliers or government agencies • Ease access to vital resources, such as financial capital and legal support • Legitimacy	• Lawyers • Bankers (commercial and investment) • Insurance company representatives • Public relations experts
Community influentials	• Provide non-business perspectives on issues, problems and ideas • Expertise about and influence with powerful groups in the community • Representation of interests outside competitive product or supply markets • Legitimacy	• Political leaders • University faculty • Members of clergy • Leaders of social or community organisations

Source: AJ Hillman, AA Cannella Jr, & RL Paetzold 2000, "The resource dependence role of corporate directors: Strategic adaption of board composition in response to environmental change", *Journal of Management Studies*, vol 37, no 2, pp 235-255.

3. Board process

Board processes is another element in any corporate governance framework. Process variables include: Frequency and length of board meetings; formality of board proceedings; board evaluations; professional development; board meeting agendas, board minutes and committees. These processes are important in the overall context of corporate governance, and this research will explore whether any of these processes influence whether or not innovation occurs within a superannuation entity.

4. Board behavioural dynamics

Kiel *et al.* (2012:608) defines board behavioural dynamics as resulting from, "social and psychological processes occur between directors and between the board and other groups, especially management. The individual and collective behaviours of the board and its members are dynamic as they continually change over time resulting from the changing issues facing the board at a particular point of time and the coming and going of individuals on both the board and in other groups."

The effectiveness of the board in making decisions is clearly influenced by the behavioural characteristics of the directors that make up the board (Leblanc and Gillies, 2005).

Board behavioural dynamics are central to effective board outcomes (Kiel *et al.* 2012) and appropriate boardroom behaviours are an essential component of best practice corporate governance as outlined by the UK Institute of Chartered Secretaries and Administrators.

Board behavioural dynamics can be an extremely difficult area for board members to address when they are dealing with individual trustees whose, "personality characteristics detract from the overall performance of the board (Kiel *et al.* 2012). Another level of complexity is added in the context of the ASI, where the trustee of an ASF is a representative appointed by a class of members and retains the support of that particular class of members. Kiel's research positioned the board behavioural dynamics at the centre of the corporate governance Practice Framework.

The concept of board behavioural dynamics is often cited by other academics as board culture, which is an issue that will be investigated and discussed further in the Result and Discussion Chapters.

Roberts, McNulty and Stiles (2005:11) acknowledge that board effectiveness, "depends upon the behavioural dynamics of a board and how the web of interpersonal and group relationships between executive and non-executives is developed in a particular company context."

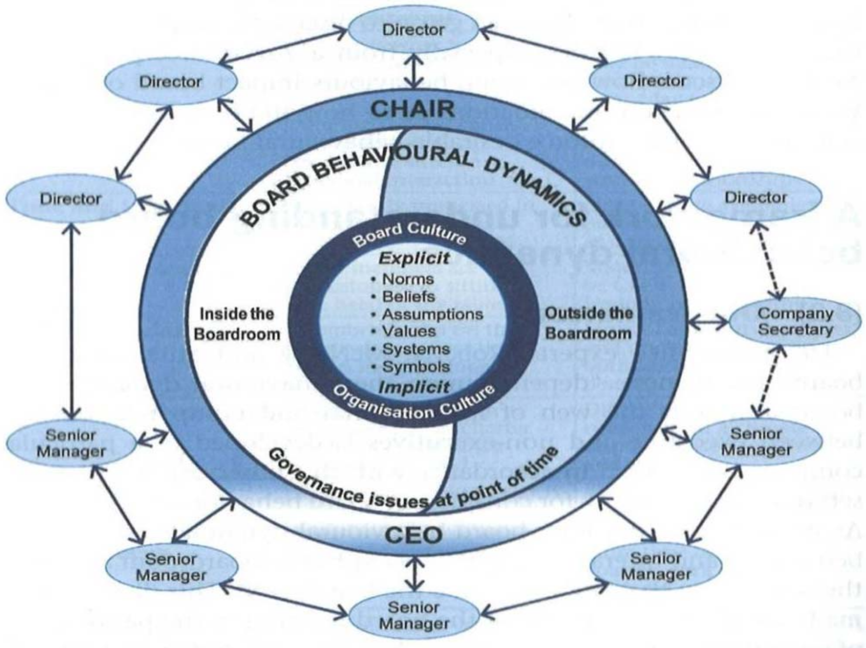


Diagram 8: A framework for considering board behavioural dynamics

Source: Keil et. al (2012). Directors at Work. Thomson Reuters. Pyrmont: NSW. p.610.

These researchers note that there are four important drivers of board behavioural dynamics (which are set out in the Diagram 8 above). The first driver is in relation to the governance at a particular point in time. The second is the impact of both organisational and board cultures. The third driver relates to the Chair and CEO's personalities and how they interact with each other. The fourth driver involves the personalities of the trustee/directors. These researchers acknowledge that the behaviours of trustees reflect the board culture and the wider organisational culture (Keil *et al.* 2012).

Tricker (2003:26) acknowledges that it is often more complicated. "Board behaviour does not consist of sets of contractual relationships, but is influenced by interpersonal behaviour, group dynamics and political intrigue". Judge (1989:24) further notes that board behaviour is often treated as a black "box" in these studies and researchers can only "… speculate on actual board behaviour".

5. Leadership

Clark and Urwin (2008a) consider that leadership in pension plans play a crucial role in mobilising the resources of decision-making by the board. Leaders must leverage organisational structures and processes to build a culture of innovation, attend to formal and informal incentives, manage an open flow of information, and manage the perception of risk around innovating if they are to succeed at service innovation (Lyons *et al.* 2006). Leadership should be about encouraging and enabling people to continually create and deliver small innovations daily. To enable innovation within the business model, leaders must provide resources and trust their employees.

Kanter (2006) believes that companies that cultivate leadership skills are more likely in business to net successful innovations. The ability to manage human capital may be the most important of the strategic leader's skills (Reimann, 1995). In the opinions of Lumpkin and Dess cited in Hitt *et al.* (2002:439), the key to competitive advantage "will be the capacity of top leadership to create the social architecture capable of generating, intellectual capital… By intellectual capital, I mean know-how, expertise brain power, innovation (and) ideas". A strategic leader's role among other things is to inspire an organisation's work force to work co-operatively in the pursuit of meaningful outcomes (Hitt, *et al.* 2002).

6. Legitimacy and commitment

Gupta and Wilemon (1990) reported that they were concerned that senior managers within organisations are often not committed to innovation and note that while there is lip service paid to it; innovation is often not legitimate within the organisation, which further reduces the probability of a commitment to it. Innovation requires a deeper commitment than regular work. Burns and Stalker (1961) note that, as the boundaries of responsibilities must be broader and more inclusive in the rapidly changing, ambiguous conditions of innovation. Govingarajan and Trimble (2013:11) acknowledged that; *"... Innovation teams feel a hostility towards the people responsible for day-to-day operations that is just as biting…"*

External influences on the Corporate Governance Framework of an ASF

External factors placed on an ASF board include: Legislative requirements in the industry in which an organisation is located; its ownership structure; and the presence of other influential stakeholders.

Within the ASI, regulatory systems and regulatory compliance are fundamental external influences on any ASF board. Further, pressures from legislators and institutional investors are also placed on the shoulders of these boards. In the case of ASFs, the additional pressures from industry and professional bodies such as APRA, ASFA, AIST, unions and AISC and emerging new legislation (such as FOFA and stronger super reforms) and pressures from institutional investors impact on corporate governance systems. "Each board operates in a unique environment comprising different pressures" (Pye and Pettigrew, 2005:32).

Earlier research by Judge and Zieithaml (1992) noted that institutional forces may influence the board's decision making processes, (such as legislation, and pressures from institutional investors).

Globally, institutional investors are increasingly putting pressure on superannuation funds to alter the composition of the board and structure of boards. In particular, institutional investors and large pension funds in the United States, such as CALPERS[12] have taken a committed lead in shareholder activistism. Institutional investors collectively accounted for approximately eighty per cent of all share trading in the United States.

In summary, the two most notable external factors that impact on the ASI in today's current environment are: Federal Government and external stakeholders such as APRA, ASIC (who set the rules for the operations of the ASI and Industry and Professional bodies (such as ASFA, AIST)).

Conclusion

Evans *et al.* (2007:3) recognised that, "academic literature on this topic is sparse" and research into fund governance is in the initial stages relative to corporate governance literature. Watson Wyatt's survey found that "pension fund governance is a big issue for most multinational" (2007:2). Leadership is crucial within this context and it is argued that boards should have a role in innovation since it is a fundamental factor in determining performance.

[12] $USD 133 billion dollars in Funds under Management.

CHAPTER 3: INNOVATION IN THE SUPERANNUATION INDUSTRY

"Pension funds often seem unable to deal with the institutional costs of change, are slow to adapt, adopt or innovate, and tend to rely on past practices notwithstanding the uncertainties of global financial markets. Inertia tends to dominate…"

(Urwin and Clarke, 2009:7)

The concept of innovation

A definitive explanation of what innovation is, whilst the concept is often discussed by scholars, has proven difficult to clearly define. In a recent Harvard Business Review (2013) publication on innovation with leading innovation academics such as Martin, Govindarajan, Trimble, Immlet, Bettencourt, Ulwick, Day, Thomke, Reinertsen, Kanter, Macmillan, Drucker, Christensen, Kaufman and Shih the concept of innovation was discussed by all scholars albeit never defined.

The concept of innovation has been variously defined by other academics to include: the commercial or industrial application of something new, a new product, process or method of production; a new market or sources of supply; a new form of commercial business or financial organisation (Schumpeter, 1983), and innovation covers a wide range of activities to improve organisation performance, including the implementation of a new or significantly improved product, service, distribution process, manufacturing process, marketing method or organisational method (European Commission, 2004).

Ramsey, Bastian and Schaik (2007:395) define innovation (used by Clark with his pension fund research in the U.K. and discussed later in this section) as, "the process that generates in an individual (or an institution) a novel learned behaviour (or change in institutional form) that is not simply a consequence of social learning (imitation or emulation) or environmental induction (adaption)".

A broad definition of innovation is offered by Gorman: "Innovation is the act of developing a new product, service or process based upon a new idea" (Gorman, 2007—vi). This provides a good starting point and a more complex definition of innovation is provided by Mezia and Glynn (1993:78) noting that innovation is, "non-routine, significant and discontinuous organisational change that embodies a new idea that is not consistent with the current concept of the organization's business." This approach defines an innovative organisation as one that is intelligent and creative (Glynn 1996; Woodman *et al*. 1993), capable of learning effectively (Senge, 1990) and creating new knowledge.

Cutting through these somewhat obtuse descriptions, the broad definition published in the third edition of the Oslo Manual (2005) has been the one most applicable to the context of the ASI. That is, innovation is defined as, "the implementation of a new or significant improved product (good and services) or … a new marketing method." This definition was used for the purposes of data collection for this research. Other useful contributions to the definition of innovation include Lyons, Chatman and Joyce (2007) who focus on both the production of *novel* and *useful* ideas that improve effectiveness as well as the methods used to put creative ideas into practice. Innovation can include doing old things in new ways rather than developing completely new inventions (2007:175). In the next chapter, research by O'Sullivan (2000) is focussed on, so this definition also needs consideration. O'Sullivan (2000:2) defines innovation as, "the process through which productive resources are developed and utilized to generate higher-quality and/or lower cost products that had been previously available and the concept of innovation is used in a general sense".

Academic research has also focused on innovation being termed as; 'radical', 'incremental', 'disruptive' or 'game changing'[13] and the use of the distinction between incremental and radical will be discussed later in this chapter as it is beneficial with the categorisation of the different types of innovation within the ASI.

Innovation in services

Innovation in services has some unique features and the service sectors have become increasingly important in a global context. The OECD (2001) noted that in 'services' there appears to be less of a concern that market power would be a prerequisite for innovation than there is in manufacturing. The DTI Project (2007) found that innovation in services is believed to be more multi-dimensional and organisationally orientated than manufacturing innovation. While service firms do innovate, Clarke (2006) states that innovation in UK pension funds is rare.

Literature in the field of innovation has primarily focused on the manufacturing industry, rather than the service sector that has played an important role in the economic development and innovation systems (Coombs and Miles, 2000; Howells, 2000; Miles, 2001, Tether *et al*. 2002a, 2002b).

Attention given to innovative activities of service sectors internationally has nevertheless increased over the last decade, since the influential work by Miles *et al.* (1995). Far from being innovative laggards, services are becoming an ever more important locus for innovative activity (Howells, 2000; Tether and Metcalfe, 2004). Tether (2005) states that innovation in services (as opposed to manufacturing) is more likely to entail, and be orientated towards organisational change, rather than product/process innovation.

[13] Refer to C.M. Christensen, *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fall* (Boston, MA: Harvard Business School Press, 1997); G.Hamel, *Leading the Revolution* (New York, NY: Plume, 2002); A. Hargadon, *How Breakthroughs Happen: The Surprising Truth about How Companies Innovate.* Cambridge, MA: Harvard Business School Press, 1999).

The literature on innovation in services is nevertheless sparse and presupposes that service organisations do innovate (Normann, 1991; Crozier, Normann and Tardy, 1982). Even where literature presents the empirical results of innovation activities in service firms (Gadrey *et al*. 1993) it does not explore whether it is reasonable to presuppose that innovation is happening in service firms. As Sunbo, (1997) quite rightly points out, it can nevertheless be deduced that innovations are taking place[14]. Dated, albeit relevant, research by Reidenbach and Moak (1986) and Reidenbach and Grubs (1987) investigated innovation in American banks, and found that banks innovate albeit under different conditions to the manufacturing sector. Lyons *et al*. (2007), in the context of investment banking, identified four fundamental enablers for innovation:

i. Client demand for services that span boundaries;
ii. Broad and deep client relationships;
iii. Tight integration between design; and
iv. Execution, and the vision of innovation articulated at the top.

Innovations are largely market-driven and are formulated within the framework of a strategy (Sundbo, 1997). Innovations are primarily determined by the strategic situation of the organisation. The top managers of the organisation control the innovation process by making decisions about whether to implement a specific innovation idea or not, albeit the ideas for innovations come from all parts of the organisation. In the field of innovation, a Schumpeterian perspective suggests that as a strategy, innovation is of greater significance amongst larger firms (Scherer, 1984).

[14] During the 1990s an investigation by Gadrey, Gallouj, Lhuillery, Weinstein and Ribualt of innovation in service firms was undertaken for the Ministry of Education and Research in France. It included representation from the banking, insurance, electronic information services and management consultancy industries. The research found that: innovation was taking place in all of them; innovation activities were spread out throughout each organisation; and the innovation process was generally systemic, however, there was an increasing tendency to systemise and manage it.

Sudho's (1997) research also discovered that any innovation process could be divided into four phases:

i. Idea generating;
ii. Transformation into an innovation project;
iii. Development; and
iv. Implementation.

The innovation process can be characterised as cumulative, collective and uncertain. It is also subject to technological uncertainty, market uncertainty, unforeseeable changes to product demand, factor prices, capabilities and the strategies of competitors may hinder the generation of high quality, lower cost products by an organisation.

It is acknowledged that this process should not be construed to suggest innovation is a smooth, rational and linear process as it has been reported that this is rare in services industries (Voss *et al*. 1992; Gadrey *et al*. 1993). Innovation processes in financial service organisations were organised in different ways and often gained a life of their own which broke all planned organisational patterns (Sudho, 1997 cf. Scarborough and Lannon, 1989).

Innovations within the service industry have by enlarge been product innovations instead of process driven ones. Yet, process and product innovation drive long-term economic growth and the financing of innovation is a crucial ingredient in this process.

Service organisations typically innovate on the basis of a quick idea and not on scientific results and therefore innovations tend to develop in adhoc ways and are not the product of permanent research and development departments. The process in service organisations is considered to be more a search and learn process, "there is some systematic organisation of the process … but much of it is trial and error or search process," (Sudho, 1997:450).

While there are many different definitions of 'services,' for the purposes of this research, 'services' have been identified as those activities that are not agriculture, manufacturing or mining. Overall research in services innovation has been extremely limited for several reasons.

Firstly, services have been regarded as innovation laggard compared with manufacturing sectors. Coombs and Miles (2000) observed that the growth of the 'services sector' to an increasingly dominant share of industrial economies' output, means that we can no longer treat service sector innovation as negligible or residual.

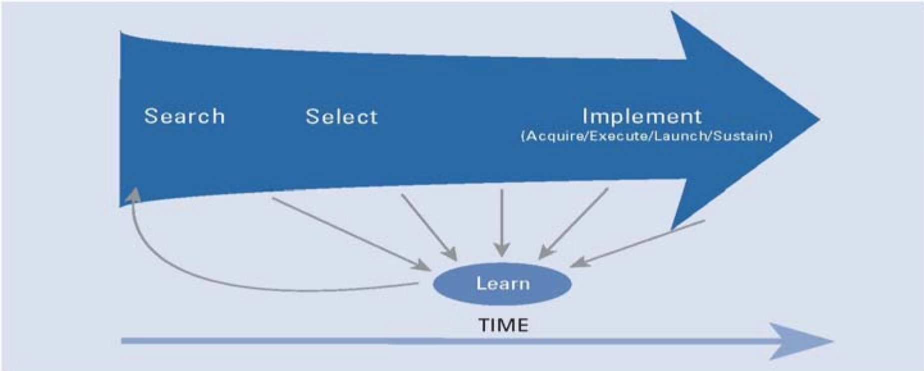
Secondly, services have their own features in innovations and measurement of output, which create difficulties for innovation studies (Wang and Miozzo, 2004). Gallouj and Weinstein (1997) argue that service activities, particularly, the "fuzzy" nature of their output, make it particularly difficult to measure them by the traditional economic methods.

Services are important and services do innovate both technologically and organisationally (Miles, 2001; Howells, 2000, 2002; Tether *et al.* 2002a, 2002b: Coombs and Miles, 2000). In economics, services have long had a, "Cinderella status … being neglected and marginal" (Miles, 2000:371). Tether's article (2003) raises questions about the adequacy of our understanding of innovation activities in service-dominated activities, particularly as innovation is regarded as fundamental to the competitiveness of advanced economies (European Commission, 2000). Within innovation studies, this 'supplier- dominated' perspective on services is related with Pavitt's (1984) taxonomy of technological activities. Pavitt classified all private services (alongside traditional manufacturers) as 'supplier dominated'. Following on in the 'Pavitt tradition' of research (Barras 1986, 1990), Evangelista (2000) and Miozzo and Soete (2001) translated a manufacturing sector understanding of innovation from studies to fit a service sector context.

Another emerging view of innovation applicable to services draws on the research by Kirzner (1997) and evolutionary economics (Metcalfe, 1998) and the competence-based theory of the firm (Foss and Knudsen, 2013). These researchers view competition and innovation as related processes and there is a wide variety of possible innovation trajectories within each particular sector (Tether, *et al.* 2001) whether it is manufacturing (or product) or service based. For instance; "Product innovation can widen the market and hence promote industry growth and/or it can enhance product differentiation." (Porter, 2004:177) Also innovations in marketing may influence industry structure directly by increasing demand. An example in the ASI context is the use of advertising media to reach new members and increase their market share. Innovations in marketing that result in better efficiency can lower the cost of the product. Innovations in marketing also have effects on other elements of the industry structure. For instance, new forms of marketing can be subject to increased or decreased economies of scale and hence affect mobility barriers (Porter, 2004).

There is an overall need of innovation for an entity to be competitive (Hitt, *et al*. 2002). Innovation is a direct requirement of specific strategies such as differentiation (product innovation) and cost leadership (process innovation). Innovation is also associated with competitive dynamics and effective innovation results in sustainable competitive advantage (Hitt, *et al*. 2002). Due to the link between the development of competitive advantages, many entities are interested in producing innovations and in effectively managing the innovation process. In relation to the management of the innovation process in service organisations, Sundho (1997) noted that innovation must be a strategic task; have a broad organisational process; and the innovation process follows the four stage approach of; idea generating; transformation into an innovation project; development; implementation.

The innovation process is based on the need to commit resources and the consideration of the uncertainty of returns from innovative investments, which requires a need for a control of resources by the decision makers who shape the innovative process (Schumpeter, 1996; Lazonick and O'Sullivan, 1996). The phases involved in the innovation processes are highlighted below in Diagram 9.



Search, Select and Implement

Diagram 9: Phases of innovation processes

Source: DTI (2007: 69). Innovation in Services. DTI Occasional Paper No. 9. June 2007. Department of Business, Innovation and Skills.

Diagram 10 below outlines the stages of innovation, which include: invention; commercialisation; diffusion and integration. Hansen and Birkinshaw (2011) also outline an excellent framework that ASFs could adopt, and then select practices to strengthen an innovation value chain within their fund, if innovation is considered strategically significant. This chain includes three phases: idea generation; idea conversion and idea diffusion.

Stages of Innovation, their Focus Activities and Measurement

'Stage' of Innovation	Focal Activities	Especially Relevant to	Measured by	Gaps & Weaknesses
Invention	R&D & other 'discovery' oriented activities	The 'high technology' sectors of the economy	R&D surveys, patent databases	Informal R&D & entrepreneurial invention by new and small firms
Commercialisation (of new products and processes)	Introduction to new (technology-based) products and processes	Sectors in which competition is based on discrete products and processes	European Community Innovation Surveys	Links between innovation activity and firm strategy. Links between technological and organisational change
Diffusion & Integration (of technologies and practices)	Combinations of, & mutual adjustments to, skills, technologies, and organisational forms	All sectors of the economy, but especially those that apply rather than develop technologies	Measured by ad hoc surveys, e.g., the survey analysed in Section 2.4*	Lacks status as conducted through ad hoc surveys. Methodologically underdeveloped in terms of detailed content of surveys.

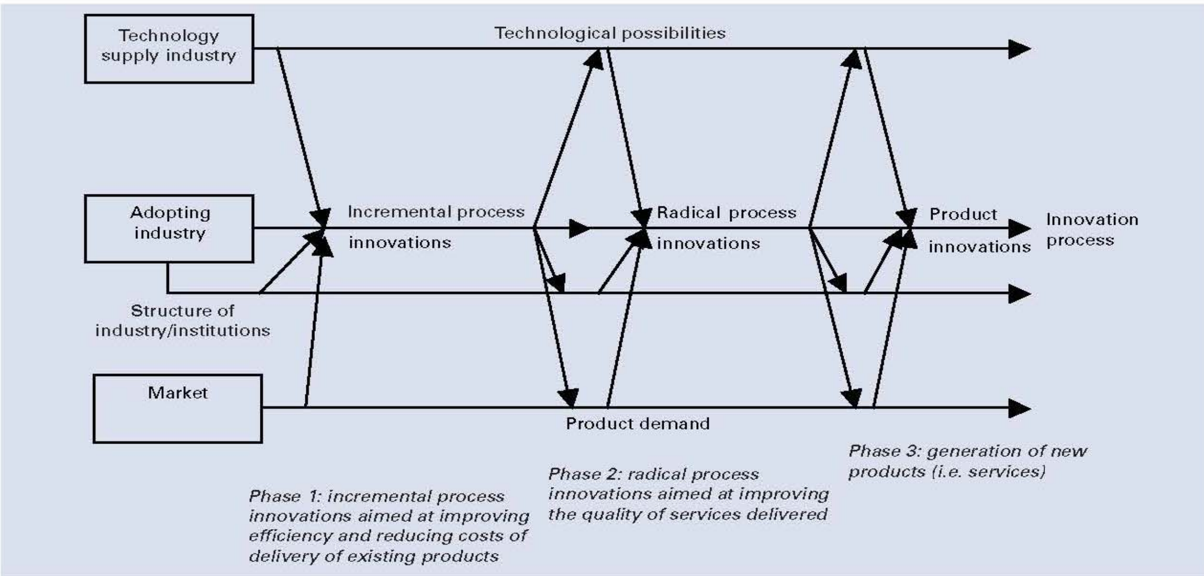
* Some surveys of workplaces and changes to workplaces through the introduction of computers and/or new work practices are also relevant here. To our knowledge there no dedicated survey that seeks to explore this 'stage' of innovation.

Diagram 10: Stages of Innovation

Source: DTI (2007: 37) Innovation in Services. DTI Occasional Paper No. 9. June 2007. Department of Business, Innovation and Skills.

Diagram 11 below illustrates three phases of an innovation process. Phase One highlights that incremental process innovations are aimed at improving efficiency and reducing costs of delivery of existing products. Phase Two shows that radical process innovations aimed at improving the quality of services delivered. The final phase is the generation of new products. This diagram draws a distinction between incremental and radical processes.

Interactive innovation in the reverse product life cycle



Source: Adapted from Barras (1990).

Diagram 11: Three phases of an innovation process

Source: DTI (2007:75). Innovation in Services. DTI Occasional Paper No. 9. June 2007. Department of Business, Innovation and Skills.

Different types of innovation- incremental versus radical

The division between incremental and radical innovations (Abernathy and Utterback, 1978) is that incremental innovations, “produce only small jumps” (Sundho, 1997:439) while ‘radical’ innovations would create disruptive changes. Incremental innovation refers to, “do better” innovations including extensions to original concepts. On the other hand, radical innovation describes, “do different” innovations that are completely new ways of doing things (Bessant & Davies 2007; Bessant & Tidd 2007).

Table 8 below provides examples of both incremental and radical innovation in the services industry.

Table 8: Examples of incremental and radical innovation in the services industry.

Source DTi (2007: 68). Innovation in Services. DTI Occasional Paper No. 9. June 2007. Department of Business, Innovation and Skills.

Examples of incremental and radical innovations in services

Type of innovation	‘Do better’ – incremental	‘Do different’ – radical
‘Product’ – service offering to end-users	Modified / improved version of an established service offering – for example, more customised mortgage or savings ‘products’, add-on features to basic travel experience (e.g. in entertainment system), increased range of features in telecomms service	Radical departure – for example online retailing
‘Process’ – ways of creating and delivering the offering	Lower cost delivery through ‘back office’ process optimisation, waste reduction through lean, six sigma, etc. approaches	Radical shift in process route – for example moving online from face to face contact, supermarkets and self-service shopping rather than traditional retailing, hub and spoke delivery systems, etc.
‘Position’ – target market and the ‘story’ told to those segments	Opening up new market segments – for example, offering specialist insurance products for students	Radical shift in approach – for example, opening up new travel markets via low-cost travel innovation, shifting health care provision to communities
‘Paradigm’ – underlying business model	Rethinking the underlying model – for example, migrating from insurance agents and brokers to direct and on-line systems	Radical shift in mindset – for example, moving from product-based to service-based manufacturing

Drivers of Innovation

Innovations that result from a conscious, purposeful search for innovation opportunities are found in only a few situations within an organisation or industry (Drucker, 2002). These opportunities include: unexpected occurrence, incongruities, process needs, industry or market changes, demographic changes, changes in perception, and new knowledge. Organisations may engage in innovation for various reasons including trying to drive efficiency or to create quality products to offer the market (OECD, 2005). Innovations in marketing can drive efficiency and lower the cost of the product. Yet new forms of marketing can be subject to increased or decreased economies of scale and hence affect mobility barriers (Porter, 2004).

Culture and Innovation

Culture within an ASF also plays an important role as a possible driver of innovation. Earlier research has identified several determinants of innovation, including leadership, cohesiveness, organisational size and structure and resource availability. Lyons *et al.* (2006) acknowledges that a less obvious source of influence on innovation is an organisation's cultural norms. Culture is defined as a system of "shared values that define what is important and norms that define appropriate attitudes and behaviours for organizational members" (O'Reilly and Chatman, 1996). Culture increases an organisation's ability to attain valued goals by executing more efficiently on its strategy (Lyons *et al*. 1996).

Sustained innovation requires a cultural foundation that permeates the organisation, embedded in how people are led and how people lead. Lyons *et al.* (1996) identified that cultural norms can be a powerful way of stimulating innovation by attaching social approval to activities that facilitate innovation.

"The successful service innovation may depend on the unique cultural norms that organizations develop and the extent to which an organizations cultural orientation aligns with, and is supported by, its overall strategic orientation" (Amabile *et al*. (1996) in Lyons, *et al*. (2007: 179).

Chatman and Flynn (2001) challenged the belief that strong culture and innovation are opposing forces in organisations and viewed strong culture as fuel rather than a constraint to innovation. Conversely, Sorensen (2002), reports that a strong culture within an organisation would seem to hinder innovation. While these organisations may experience superior performance in stable businesses, they may be unable to engage in innovative practices. Other researchers have agreed that strong cultures may be detrimental to innovation, claiming that strong agreement in any form effectively stifles innovation. Earlier research by Nemeth and Staw (1989) argued that cohesion among organisational members intensifies group think and less deviation and it is this very deviation that can provide the potential for innovation within an organisation (as noted that freedom to express ideas without fear of reprisal from others increases the likelihood that people will express creative solutions rather than suppress them).

Inhibitors of Innovation

Innovation activities within organisations are often hindered by a number of factors which include: high costs; economic factors; lack of demand; lack of skilled personnel or knowledge; and restrictive legal requirements.

Diagram 12 below, published by DTI (2007), illustrates ten factors cited by service industry organisations as barriers to innovation. These ten factors are: customers do not pay or are unable to pay; regulations create barriers; costs of risks are too high; a lack of key staff; too busy to innovate; customers are unresponsive; innovation is unnecessary; innovations are too easily copied; organisational rigidities and a lack of required technology. Similarly, research by Robson and Ortmans (2006) found that costs, risk of innovation, as well as regulations were cited as factors that were barriers to innovation of high importance. Hitt *et al.* (2011) also recognised that considerable political activity within an entity may centre around resource allocation and different business units may have to compete aggressively with each other to obtain adequate or needed resources and that may lead to tension and conflict between the units.

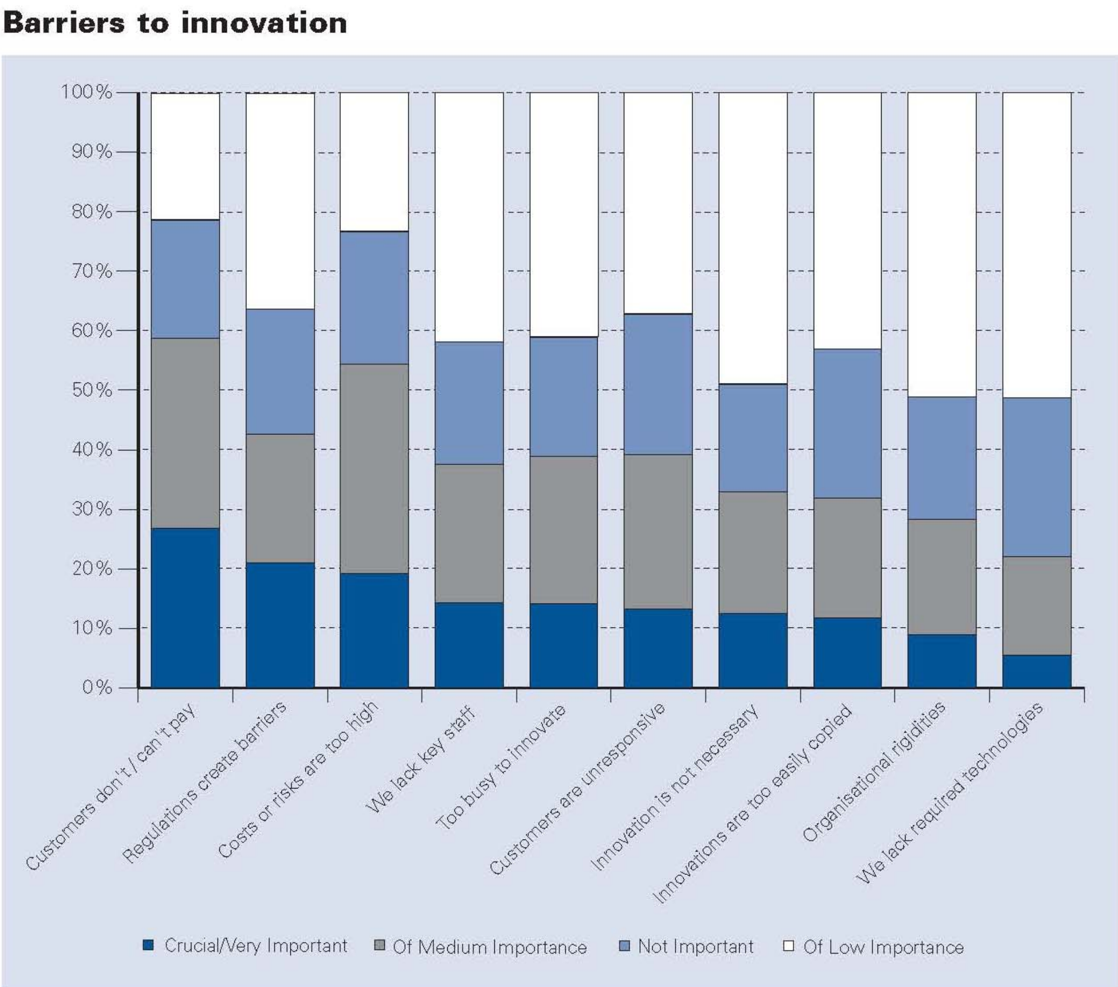


Diagram 12: Barriers to innovation

Source: DTI (2007:48) Innovation in Services. DTI Occasional Paper No. 9. June 2007. Department of Business, Innovation and Skills.

In summary, service innovation with its regulatory requirements and standards create a barrier to innovation, however, these barriers should not be so arduous as to prevent change (Tether, 2002b).

As there was no published research on the topic of innovation within the context of the ASI, Clark and Urwin's (2009) research provides insight into the UK pension industry which is similar to the ASI in terms of legislative requirements and governance standards.

In relation to the extent of innovation within this industry, Clark and Urwin (2009) observed that funds in the United Kingdom sought to innovate where:

i. Innovation involved inserting a well-informed independent risk management function into a decision making process, as funds were better placed to respond to the GFC.
ii. Innovation involved segmenting and parcelling risk for placement with market agents, this strategy has effectively simplified the survival strategies of the entities.
iii. Innovation involved creating institutional excellence through the formation of expert investment platforms, this type of response has played a vital role in enhancing the intensification of effort associated with responding to the crisis.
iv. Innovation has transformed board deliberation through the use of "dashboards' to improve the allocation of responsibilities and setting the priorities, this enabled funds to actively engage with market volatility rather than simply holding a 'watching brief' or assuming that 'reversion to the mean' will absolve funds of responsibility for formulating plans for worst-case scenarios.

Clarke (2009) notes that innovation has been both 'rare' and difficult to achieve within UK pension funds, given inherited constraints, such as legislative requirements and institutional capacity. Highlighting this is the fact that there were only a few instances of fully-fledged institutional innovations within this industry as opposed to adaption or adoption. Clarke and Urwin (2009) argued that entities (similar to ASFs in Australia) are routinely turned inside out by challenging trustee boards and management to be innovative within the bounds of institutional capacity and legislative requirements. Clark (2006) considered that the problem with legislative models of pension fund regulations is that they tend to respond to past problems and reduce the scope for local innovation.

> *Our civilization is built on financial innovation. Finance begets and supports almost all activities; it makes the world turn in a modern and civilized way. Innovation is necessary if finance is to remain relevant as a means of achieving society's goals.* (Shiller, 2013).

Financial markets (such as the superannuation industry) should be "innovation machines" that test investors' fitness to succeed – and there are significant rewards for those that are able to identify and exploit unacknowledged market opportunities as well as significant rewards for those that create markets and financial products to price and distribute risk, such as in derivates and alternative investments (Baumol, 2002 and Clark and Urwin, 2006). Like Baumol (2002), Clark (2003:51) "believes that the rate of product and process innovation drives long-term economic growth, and that the financing of innovation is a crucial ingredient in this process". Baumol (2002: 79) advocates that, "innovation is essential to the survival of firms in a capitalist economy". Baumol further argues that in a capitalist economy, innovation rather than price is the primary competitive dimension and firms that do not innovate will find their market shrinking as they lose business to more innovative competitors.

The governance challenge here, "is to exploit the premium from innovation through the application of judgment and experience to new opportunities, recognising that conventional risk-related procedures may be poorly tuned to the frontiers of finance" (Clark and Urwin, 2006:10). New market designs, new financial products, advanced IT and developments in the studies of the theory of finance have led to rapid advancement in the global financial markets and financial and superannuation entities. As Merton (2006:61) noted the "cumulative impact has significantly affected all of us – as users, producers, and overseers of the financial system – most importantly in long-horizon asset management providing for retirement benefits."

Innovation Patterns within the service industries

Table 9 below highlights the various innovation patterns among three different sectors, such as: retailing, transport, logistic services and financial services. Of particular interest to this researcher, are the new products on offer within the financial services industry? Table 8 refers to green banking products covering various life stages and other products such as a multi-functional smartcard within the financial services. The life-stages approach is discussed in more detail in the Results Chapter in relation to Fund 2.

Table 9: Different types of innovation with the service industry

Innovation patterns

	Supplier dominated	Innovation in services	Client-led innovation	Innovation through services	Paradigmatic innovation
Retailing	Scanning registers/stock replenishment systems	New shop formulae/new franchise schemes	Green or "organic" product/home delivery	Retail consultants introducing new formulae or marketing strategies	E-commerce
Transport and logistic services	On board computers	New logistic concepts mostly streamlining value chains and adding information to it	Outsourcing of transport and "light" production/ assembly	Shippers offering clients tracking and tracing facilities and so contribute to reductions in stocks	Containarisation, e-commerce
Financial services	New distribution channels based on technical platforms (SMS alerts, new mobile devices), back office automation	New (customised) financial service concepts, multi channel management	Green banking, products covering various stages in life e.g. starters mortgage or estate planning	Financial constructions e.g. sale and lease back	Multi-functional smart cards (including non-financial functions)

Source: From van Ark, B,. Broersma, L. and den Hertog, P. (2003) 'Service Innovation, Performance and Policy: A Review'.

The Innovation Space

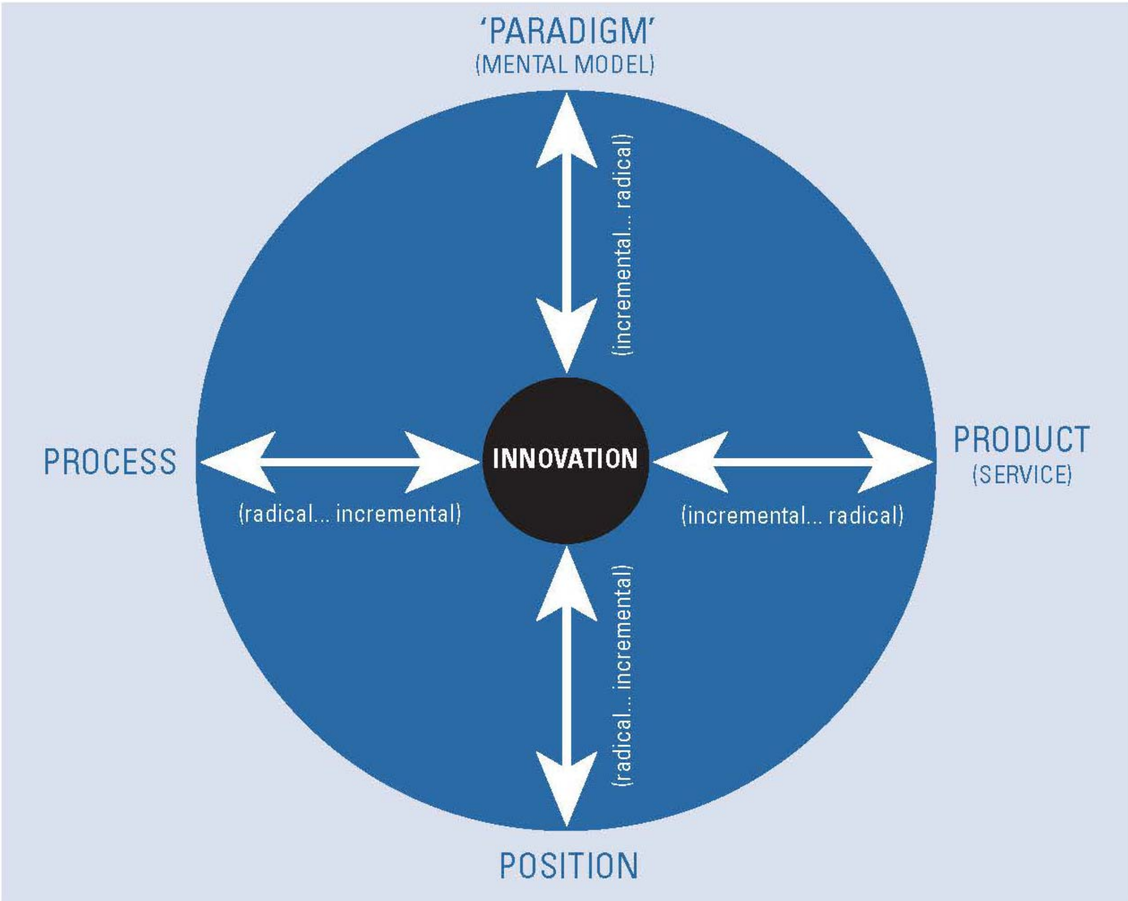


Diagram 13: The Innovation Space Model (Bessant & Davies 2005:13)

The Innovation Space Model by Bessant and Davies (2005:13), illustrated above in Diagram 13, was modelled for the service industry. It suggests that different types of innovation can occur within an organisation, which includes product, process, position or paradigm. The different types of innovations within the ASI will be outlined in the Results Chapter.

The first type of innovation which can occur within an organisation is a 'Product innovation' which involves changes to the products or services offered by an organisation. The second type of innovation which can occur within an organisation is a 'Process innovation' which involves a change to the way in which the product is created and delivered. The third type of innovation which can occur within an organisation is a 'Position innovation' which involves changing the context in which the products or services are introduced. The fourth and final type of innovation which can occur within an organisation is a 'Paradigm innovation' which involves changing the underlying mental modes which frame what the organisation does.

Product innovation is one of the four specific types of innovation depicted in Diagram 8. The ability to develop new products and services is important to many organisations and will be explored within the context of the ASI. The benefits to the industry through product innovation would enable superannuation entities to improve the quality of their output, revitalise mature businesses, enter new markets, and react to competition or competition encroachment.

"For organizations which must adapt to changing competition, markets, technologies, product innovation is not simply a fad. It is a necessity." (Zahra and Covin 1995)

Measuring innovation

"Product innovation' is defined as the conceptualisation, development, operationalization, manufacture, launch and ongoing management of a new product or service"

(Dougherty, 1992a).

To measure whether any product innovation had occurred (or is about to occur) within an ASF, the below definition of product innovation[15] was used as a guide for this research.

[15] In addition, the 3rd edition of the Oslo Manual (2005) acknowledges that in many services the distinction between product and process innovation is blurred, and the innovation activity in services is frequently more continuous, consisting of numerous incremental changes, none of which may individually be considered an innovation, however, when taken together they may amount to significant innovation (OECD-Eurostat, 2005:para110-111).

What 'new' means to the organisation may involve; new customers, new uses, new manufacturing, new distribution and/or logistics, new product technology, or any combination of these (Doherty, 1996:425). A new product "is a package of features and benefits, each of which must be conceived, articulated, designed and operationalised, or brought into existence.

To determine the extent of innovation within the ASI, it is necessary to investigate how innovation was being measured within an ASF and what type of performance metrics (if any) were used to measure New Product Development (NPD)

NDP has been defined by Gorman (2007:33) to be "the act of conceiving, designing, testing, building, and launching new products and services for customers". The most popular performance metric at a business unit level was found to be the percentage of sales revenue derived from new products (Cooper, Edgett and Kleinschmidt, 2004).[16]

The concept of 'open innovation' by Chesborough (2003) is applicable directly to the ASI. The open model is based on multiple internal and external sources of ideas and channels to market. The concept may be applied directly to service innovation also. Open innovation provides for the many specialised external suppliers, rather than internal functions performed by large corporations (or industry funds). Within the ASI external suppliers include outsourced administrative services and asset allocation advice provided by specialised external suppliers to the board of trustees of ASFs.

Examples of innovation in the global superannuation industry

The only published examples of innovation within a global superannuation context are provided by Ambachtsheer (2007) who noted two examples of innovations within the global

[16] Cooper, Edgett and Kleinschmidt (2004), best performance metric was not adopted as a form of measurement within the ASI. An alternative is not offered at this stage.

superannuation industry. One international example is the Dutch Health care system and the second example is the Australian based Sunsuper which was formed as a 'co-op' as a result of private-sector employers in a specific geographical area who had joined together to create their own accumulation plan "co-op". Collectively, it created a membership base measured in the hundreds of thousands of participants. It created an arm's length, large, single purpose "co-op" to manage members' superannuation in a remote location which was a first time in ASI. Sunsuper outsourced individual investment mandates and administrative functions to "value for dollar" providers, which is categorised by Chesborough's open innovation model (2003) as a 'radical innovation' by using a specialised external supplier rather than an internal function performed by internal staff of the ASF.

Conclusion

This chapter outlined that innovation is 'novel' and defined by the Third edition of the Oslo Manual (2005) as the, "implementation of a new or significantly improved product (goods or services)…" Innovation endeavours are by nature, uncertain and risky. There are many types of innovation within the service industry that are categorised as radical and incremental innovation by academics such as Abernathy and Utterback (1975;1978); Sundho (1997); Chesborough (2003); Bessant and Davies (2007); Moller, Rjala and Westerlund (2008).

Innovation is largely market driven and is driven by organisational culture and should be related to the strategy of the organisation. There are a number of barriers to innovation including costs and legislative requirements. These issues are discussed in Chapter four.

CHAPTER 4 – CORPORATE GOVERNANCE AND INNOVATION

Introduction

To date, there have been limited studies on the relationship between corporate governance and innovation. The objective of this chapter is to examine the current literature on this topic and add to the research agenda in this field of knowledge. The leading theories of corporate governance do not however, incorporate a systematic analysis of innovation in their analytical frameworks.

Theoretical Framework: Disconnected Governance and innovation

The two dominant theories of corporate governance, that is agency and stakeholder, have ignored how the requirements of developmental, organisational and strategic characteristics of resource allocation affect an organisation's governance, and their ability to be innovative.

From an agency theory perspective, adequate monitoring or control mechanisms need to be established to protect the members of any superannuation fund from a management conflict of interest – the so called agency costs of modern capitalism (Fama and Jensen, 1983). O'Sullivan (2000) points out that the empirical problems of this theory are rooted in its theoretical framework. Far from providing an analysis of the relationship between corporate resources and innovation, it makes no attempt to deal with innovation and its implications for resource allocation. She further contends that, "financial economists make no attempt to deal with innovation and its implications for resource allocation" (2000:289).

According to Blair (1993:322; 2004) the stakeholder theory defines organizations as;

> *…multilateral agreements between the enterprise and its multiple stakeholders. The relationship between the company and its internal stakeholders (employees, managers, owners) is framed by formal and informal rules developed through the history of relationship. This institutional setting constrains and creates the strategic possibilities for the company. While management may receive finance from shareholders, they depend upon employees to fulfil the productive purpose and strategic intentions of the company. External shareholders (customers, suppliers, competitors, special interests groups and the community) are equally important, and also are constrained by formal and informal rules that business must respect.*

The stakeholder theory of governing boards is based on the notion that there are many groups in society besides owners and employees to whom the corporation is responsible. Blair (1993; 2004) contends that the governance of corporations should recognise the central importance of investment in human assets to the success of the organisation and the prosperity of the economy. Wang, Dewhirst and Dudley (1992) considered that this theory can best explain how members of the governing board think about the interests of corporate constituencies and therefore how organisations are actually managed. The theory has been used to describe the nature of the firm and the way managers think about managing (Brenner and Molander, 1977), how board members think about the interests of corporate constituencies (Wang, Dewhirst and Dudley, 1992) and how corporations are actually managed.

In summary, this theory offers a different perspective of corporate governance that provides useful insights for theoretical development for the platform of corporate governance, yet it is silent on the issue of resource allocation and any possible link with innovation within the organisation and it is argued that this theory plays no significant role within the context of explaining the relationship between a corporate governance framework and innovation for the usefulness of this research. Sternberg (1997) notes that the theory is fundamentally misguided and incapable of providing better corporate governance.

According to O'Sullivan (2000) the stakeholder theory of governance has been unsuccessful in delving into the question of how corporations allocate resources to generate innovation. Further, this theory provides no analytical basis for dealing with the fact that with all corporate governance frameworks there are insiders and outsiders to the process of innovation.

Another theory of corporate governance is the stewardship theory which claims that managers are trustworthy individuals and good stewards of the resources assigned to them (Donaldson and Davis, 1991, 1994: Donaldson, 1990). Scholars of this theory contend that superior corporate performance will be linked to a majority of inside directors as they work to maximise profit for shareholders. The reasoning behind this is that inside directors understand the business they govern better than independent directors and so can make better decisions (Donaldson and Davis, 1991, 1994: Donaldson, 1990).

Advocates of this theory seek formal board structures that empower managers through structures that integrate decision management with decision control (Davis *et al.* 1997). The theory argues that non-executive directors do not always have the expertise and inside knowledge of executive directors to effectively contribute to strategic decision-making. Whereas, executive directors offer direct working knowledge and experience (Davis, 1991: Kesner and Johnson, 1990). Arguably, insider-dominated boards are likely to be better informed about the sources of uncertainty and the potential returns stemming from innovative projects.

According to Donaldson (1990) there is no motivational problem or non-alignment of interest between management and ownership, and the governing board will be responsible mainly for the setting of strategies for the organisation.

This theory is not without criticism, for example, Tricker (1994:56) notes that the stewardship theory, "ignores the dynamics of boards, inter-personal perceptions of roles and the effect of board leadership". Donaldson's view is important with respect to contemporary leadership practices for the requirement of the CEO and the board of directors or trustees in an overall corporate governance framework. However, it would appear not a complete model of corporate governance.

In relation to any link between corporate governance and innovation, the stewardship theory is silent on the topic of innovation and its implications for resource allocation within a corporate governance framework.

In contrast to both agency and stewardship theories, Resource Dependant Theory (RDT) attempts to explain how organisations use their boards to further their interests with external stakeholders. For instance, the directors or trustees play an important role in providing essential resources or securing those resources through linkages to the external environment (Boyd, 1990; Daily and Dalton, 1994a,b: Gales and Kesner, 1994; Hitt *et. al.,* 1996; Pearce and Zahra, 1992: Pfeffer, 1972: Pfeffer and Salancik, 1978: Zahra and Pearce, 1989). This theory recommends that boards are a mechanism for managing external dependencies (Pfeffer and Salancik 1972) and reducing environmental uncertainty (Pfeffer, 1972) as well as reducing the transaction costs associated with environmental interdependency (Williamson, 1984).

RDT holds that organisations are dependent upon external resources and seek to manage them through a variety of means. The linking role of a governing board is most convincingly explained by RDT and maintains that the board is an essential link between the firm and the external resources that a firm needs to maximise its performance (Pfeffer and Salanick, 1978; Pfeffer, 1972, 1973; Zald, 1969). Ornstein (1984) reports that governing boards are viewed as vehicles that corporations use to control other organisations; to co-opt threats in their environment from competitors, suppliers, customers and regulatory agencies; and generally, to co-ordinate their business activities with other corporations.

A key criticism of this theory is that empirical findings can be interpreted by the paradigm of the researcher and ignores activities and responsibilities such as providing advice, monitoring (Hitt *et al*. 1996; Bainbridge, 1998; Fama, 1980) and strategizing (Kesner and Johnson, 1990: Lorsch and MacIver, 1989) that are important in the overall corporate governance framework at board level. The theory also fails to consider organisations' internal resources, which can be used to create value. The resource allocation component of the theory (O'Sullivan and Lazonick) is important in the overall composition of a corporate governance framework. In the literature on corporate governance for the RDT there has been no treatment of the issue of innovation, so any examination of the relationship between corporate governance and innovation has to be left in abeyance at this point of the Literature Review.

In Australia, a board is a legal requirement set out in the *Corporations Act* 2001 (Cth). Legislation also outlines certain powers and responsibilities of a board. In summary, this view is not concerned so much with adding value to the organisation but rather ensuring that shareholders rights are protected. The legal perspective is based on the traditional conventions of Anglo-Saxon trust law. This view is also noticeably silent on the topic of innovation and its implications for resource allocation within a corporate governance framework.

The managerial perspective advanced by Michael Porter (1996) recognises the integral role of manager insiders to corporate resource allocation. O'Sullivan (2000) noted that this perspective on corporate governance;

> *…neglects the way boundaries of corporate innovation processes are constructed. In particular, it neglects the fact that how control over*

corporate resources is vested in an economy, who the insiders are, and the identity of corporate strategists are shaped by institutional evolution of the economy in which corporations are embedded. (2000:96).

However, unlike the dominant theories of shareholder and stakeholder, this perspective does include innovation as a central issue to its concept of corporate resource allocation within the corporate governance framework. The advocates of managerial control recognise that the competitive success of the organisation depends on investment in innovation, which among other things, involves specialised in house knowledge, time and financial commitment to achieve. The difficulty with this managerial control perspective is that it does not connect a theory of innovation and investment. As O'Sullivan (2000) points out there is no systematic explanation of the conditions under which managers will make investments that promote innovation and generate returns and those under which such investments will not be made.

The above-mentioned theories of corporate governance do not offer a holistic approach to advancing a corporate governance framework in Australia for ASFs. As O'Sullivan (2000) points out, a research agenda that seeks to understand the relation between corporate governance and innovation requires comparative studies of resource allocation and competitive performance of corporate enterprises. As indicated above, research on the relationship between the process of innovation and corporate governance has been limited to date because the leading theories on corporate governance do not systematically integrate an analysis of the economics of innovation (O'Sullivan, 2000). This thesis aims to fill this gap in the literature. In addition, a further explanation for being overlooked is that empirical research on innovation, to date, has ignored issues of corporate control, for example, (Nelson, 1993; Freeman and Soete, 1997; Mowery and Rosenberg, 1998).

Historically, Schumpeter recognised that innovation was expensive and the key decisions on resource allocation were a component of the corporate governance, in particular of large organisations. After Schumpeter, the innovation literature fell silent on innovation and corporate governance until two Harvard scholars, Lazonick and O'Sullivan (2000) published research in the area. The study of corporate governance and innovation has not grown as an integrated field of study and these concepts still remains detached from each other. To date, there appears to be only a handful of scholars who have examined at some level the relationship between corporate governance and innovation and there appears to be a systemic oversight to examine and analyse corporate governance in an innovative framework (O'Sullivan, 2000). Both Lazonick and O'Sullivan developed an alternative theory that analyses the conditions needed are to support an innovation process within an organisation.

O'Sullivan and Lazonick focused their research in the late nineties and onwards. They examined the relationship between corporate governance and innovation.

> *Debates on these issues are needed, as well as additional empirical research that seeks to explore the dimensions of the innovation process and its relationship to institutions of corporate governance. Yet intellectual progress on these issues cannot be made without a common recognition of the importance of innovation in analysing the relationship between corporate governance and economic performance. The contemporary debates on governance have blocked the path to theoretical and empirical development along these lines by neglecting the economics of innovation…* (O'Sullivan (2000:10).

O'Sullivan (2000) adds value to the debate by linking the economics of innovation and corporate governance in a synthetic analytical framework. O'Sullivan (2002a) recognised that a system of corporate governance generates institutional conditions for innovation that supports (1) financial commitment; (2) organisational integration and (3) insider control.

The first institutional consideration, ‘financial commitment,’ was described by Lazonick and O’Sullivan (2000) as where the entities supports the ongoing access of the organisation to the financial resources required to undertake and sustain the development and utilisation of productive resources, until such time that the resources can generate returns that provide financial liquidity and that allows the enterprise to survive. The second institutional condition, organisational integration, describes where social institutions support incentives of participants in a complex division of labour to commit their skills and efforts to the pursuit of the objectives of the organisation. The final institutional condition of “insider control, ensures that control over the allocation of corporate resources and returns is in the hands of decision makers who are integrated with the learning process that generates innovation. Insider control ensures that those who exercise control over resources have the abilities and incentives to make innovative investments” (Lazonick and O’Sullivan, 2000:60).

Both researchers point out that the organisational and financial requirements of innovative investment strategies vary across business activity. With particular types of organisational integration, financial commitment and insider control may either promote or hinder innovation depending on the business activity and the competitive environment. O’Sullivan (2000) recognised the complications of the relationship between organisational control and innovation as: Firstly, the dynamics of organisational control and, the effect of enterprise development on the integration of strategists with learning processes that generate innovation: Secondly, differences in what constitutes innovation given variations in the nature of competition across business activity and within business activity over time, and finally: the dynamics of institutional change.

The gap in the literature here is the lack of emphasis and importance placed on strategic leadership by a CEO of an entity and their influence over the entire entity’s resource allocation budget and the process places requirements on the governance of the entity if they are to be innovative.

Debates on corporate governance have ignored these institutional conditions as the leading theories on corporate governance do not systematically integrate an analysis of the economics of innovation (O'Sullivan: 2000). In this context an important question that needs to be considered is that if innovation occurs within the ASI, then how do we understand it? This thesis attempts to provide insight in relation to this question.

Schumpeter's work (1934) is important as he recognised that with the growing separation of ownership and management, the entrepreneurial function within the organisation lies within the executive function of management. The emphasis on the division of ownership and executive responsibilities has implications for the management of innovation within any organisation, whether it is a publically listed company or an ASF. Schumpeter's research however, did not take into consideration the structure of the organisation, governance and other factors that shape innovation activities. For example, superannuation funds operate within the same industry but within the different sectors of the ASI, and there may be a difference in their commitment in resources, structure, strategies and developing new products (Freeman, 1982; Dosi, 1988: Patel and Pavitt, 1988).

Teece (1996) addressed the relationships between corporate structure, strategy and innovation by reviewing the characteristics of innovation and types of organisations and suggesting that the formal and informal structures of the firm, as well as the inter-firm linkages have an important bearing on the strength, as well as the kind of innovative activity conducted by private entities. Teece did not offer a theoretical explanation as to how different governance models vary in support of innovation.

Further, Chandler (1977) examined the relationship between corporate capabilities, corporate structure and strategy, however, he did not explore how these significant elements should be integrated into a framework of corporate governance and innovation. His study did not address the interaction of corporate structure and strategy in respect of a corporate governance framework. That is, to the extent that an organisation can successfully innovate by generating new knowledge through learning so that can build or sustain a competitive advantage (Penrose 1995; Teece, Pisano and Sullivan; 2000). If a superannuation entity successfully learns to innovate, then it can develop integrated structures of abilities and incentives for their participants that cannot be replicated through the market coordination of economic activity (O'Sullivan, 2000). The process of resource allocation as considered by O'Sullivan (2000) as organisational and that there is substantial ambiguity in the relationship between innovative investments and returns. Given the collective nature of the innovation process, it is difficult to closely link individual contributions to a joint outcome (Teece, Pisano and O'Sullivan, 2000).

All three characteristics of innovation: cumulative, collective and uncertain, imply that resources are allocated to generating innovation through a strategic process (O'Sullivan, 2000). Economic actors (in this instance of the ASI, CEOs or the Board) strategically allocate resources and there appear to be no objective guidelines for making these decisions. Innovation strategy is inherently subjective according to O'Sullivan and relies on the perception of the decision-maker and involves more than one decision at any one given point in time. It is a process that occurs as the uncertainty inherent in the innovation process unfolds over time. "The corporate strategies that allocate resources to innovation confront and seek to overcome uncertainty inherent in the transformation of markets and technologies." (O'Sullivan, 2000:23).

The limited discourse on the relationship between the process of innovation and corporate governance was researched and published by O'Sullivan (2000). O'Sullivan's research provided insight into the fact that there needs to be some level of recognition of the importance of innovation in analysing the relationship between corporate governance and economic performance to progress this field. Accordingly, for the theoretical platform to progress with superannuation, it is necessary to examine the innovation process and its relationship with corporate governance. This research attempts to examine innovation within the ASI and its relationship with the corporate governance framework within the ASF. The first step, within this context, was to research whether innovation occurred within an ASF.

In conclusion, a research agenda that seeks to understand the link between corporate governance and innovation in the ASI requires study of ASFs, and the factors that drive innovation. Empirical research on innovation, to date, has ignored issues of corporate control.

This thesis examines the link between corporate governance and innovation within the superannuation industry in Australia. To achieve this objective the following two broad research questions will be examined in the ASI:

1. Is there innovation in the ASI? and if so, how does innovation manifest itself in this industry; and

2. What role do boards and CEOs play in the innovation process in this industry?

This research also examines whether or not legislative requirements, such as the 'sole purpose test' for trustees set out in the SIS Act within the ASI acts as a hindrance of innovation at board level.

To better direct research, the two broad research questions have been divided into eight sub-questions:

i. To what extent are Australian superannuation funds innovative?
ii. What types of innovation occur within an ASF?
iii. Is innovation measured within an ASF?
iv. What differences in the extent and type of innovation are evident between the ASF sectors?
v. What factors may inhibit innovation?
vi. To what extent are boards influential in driving innovation?

vii. Are there any board factors that influence innovation?

viii. To what extent are CEOs influential in developing and initiating innovation?

Conclusion

Through examination of the innovation process within the ASF's, insight will be gained on whether traditional models of corporate governance are strategically aligned to the service innovation business models within a superannuation context. Typically, service innovation with its regulatory requirements and standards, create a barrier for innovation (Tether, 2002b). An assumption based on an extensive literature review was that there would be 'rare' occurrences of innovation within the ASI like that of the UK pension system.

Methods used to investigate these issues in the Australian context are detailed in Chapter five.

CHAPTER 5: METHODS

Objectives of the Chapter

The objective of this chapter is to explain the rationale and process of the research and detail the methodological principles and procedures that were engaged to investigate whether or not corporate governance frameworks within the ASI promote or hinder innovation. Due to the exploratory nature of the research, qualitative research methodologies were applied in the process of data collection and analysis. Twenty superannuation funds located in Australia participated with in-depth semi-structured interviews with key players within each of the superannuation funds selected as part of this research. Data collection began in early 2008 and the process of intensive data collection took place in Melbourne, Victoria from August 2008 to December 2008.

Overview

A qualitative research design was used for this study because of its investigatory and exploratory nature (Denzin and Lincoln, 1994; Eisenhardt, 1989) in which extended interviews were employed. This facilitated probing and follow-up questions on related issues and problems during the interviews. A semi-structured in-depth format was employed for interviewees to answer questions regarding corporate governance and innovation. The extended interview format permitted exploration of personal work experiences of learned individuals as well as their views regarding possible explanations for innovativeness, or lack thereof, within the superannuation industry. Some questions were open-ended, providing interviewees also with an opportunity to raise matters of particular concern or interest to them. In order to ensure consistent coverage of issues, a schedule of standard questions were developed.

The interviews were drawn from superannuation funds in Tasmania, South Australia, New South Wales and Victoria. The majority of the interviews were conducted face to face in the Melbourne central business district. A range of interviewees from different occupations within the superannuation industry were interviewed including chairmen, trustees, chief executive officers, chief financial officers, chief information officers, senior management, marketing experts, asset allocation consultants, actuaries, accountants, investment managers, other industry experts and fund managers. Participants employed within the industry were from both the private sector and public sector but not SMSFs.

Rationale for the Research Design

The broad aim of this thesis is to develop a more detailed understanding of the ASI. Specifically, this research aims to understand the extent and types of innovation occurring within the industry and to explore the link (if any) between corporate governance and innovation and any impact by this framework on innovation within an ASF. A qualitative research approach was adopted. The case study here was oriented towards a professional audience.

Research Methods

Researchers need to determine whether their investigation will be studied through qualitative or quantitative means. Yin (2003) acknowledges that a quantitative methodology is appropriate for focusing on “what” or “how many” type questions. Quantitative researchers believe that the data that is gained though quantitative inquiry is hard, reliable and replicable, whereas qualitative researchers believe their data is rich in understanding (Bryman, 2004;

Walle, 1997). Conversely, qualitative methodologies lend themselves to questions that are more exploratory in nature.

Qualitative and quantitative research has advantages and disadvantages. Quantitative research offers statistical measurement meaning that results can be presented succinctly and hypotheses tested (Patton 1990). This type of research permits repetition in future studies, causality and generalisations to be established (Bryman 2004). There is a natural tension that exists between the fields of qualitative and quantitative research. Despite this tension, qualitative research is ideally suited for inductive theory building and interpretive research projects (Gephardt, 2004).

Gordon and Langmaid (1988) note that the strengths of qualitative research are that it can increase understanding, expand knowledge, clarify the real issues, generate hypotheses, identify a range of behaviour, as well as explore and explain motivations. It is also dynamic and flexible, provides deeper, broader and richer understandings (Patton 1990). Accordingly, these factors make it very attractive to undertake this type of research for this topic area. However, it is recognised that qualitative research is not without criticism and more recently criticised for its inability to carry out replications of findings (Bryman, 2004) and its inability to generalise (Patton, 1990).

A qualitative study was deemed most suitable to the research subject at hand, as this topic requires exploration of a service industry, occurrence of innovation and corporate governance frameworks. Qualitative analysis can identify mechanisms beyond mere association, "is unrelenting local, dealing with complex network of events, can untangle temporal factors and can search for links between variables and processes, looking for connections over time" (Miles & Huberman 1994: 147).

This qualitative study allowed for the collection of data in Australia, from both insiders and experts within the industry. A qualitative research strategy using a single case study of the ASI, was adopted as a method to assess whether or not innovation occurred within the twenty superannuation funds that participated in this research. Twenty superannuation funds were involved and while this may appear statistically insignificant, in terms of the collective funds under management of these twenty ASFs it equates to $AUD 255 Billion dollars, which was twenty five percent of total funds under management in superannuation funds and is a significant amount of money in the Australian economy.

The question as to which qualitative approach is appropriate for this research is another issue that is addressed in this chapter. Firstly, this research could have been conducted by either multiple case studies with the various superannuation funds that had agreed to participate; or secondly, through a hybrid qualitative approach where interviews are conducted with the individual ASFs that had agreed to participate in this research; and several ASFs would be examined in detail, by way of case study method; or finally, the preferred approach that the superannuation industry in Australia is used as the actual case study to be examined, by way of a series of interviews with each superannuation fund participating in this research.

Given the phenomena under investigation, a decision by this researcher and a co-supervisor of this thesis was taken to employ a single embedded case study method for theory building. Yin (1994:38) suggests that a single case study research is a method suitable:

> *…To confirm, challenge or extend the theory, there may exist a single case, meeting all the conditions for testing the theory. The single case can be used to determine whether a theory's proposition is correct or whether some alternative set of explanations might be relevant.*

Yin (1994; 2000) suggests that the single case study is ideal where the case is 'unique'. The case of the ASI can be argued in the sense it holds under $1.5 Billion AUD in funds under management and very little research has been conducted within this industry, and no published research on the innovation within the ASI.

The Case Study as a Research Method

Definition of a case study

A case study relies on multiple sources of evidence, with data collection and source. Bromley notes that case study research is defined as a, "systematic inquiry into an event or a set of related events which aims to describe and explain the phenomenon of interest" (1990:302).

The case study method has received ever-increasing attention over the past two decades, with noteworthy efforts made to establish it as a credible method, including case study design (Yin, 1993, 1994) and qualitative data analysis (Miles & Huberman, 1994) and theory building from case studies (Eisenhardt, 1989a; Leonard-Barton, 1990). Subsequently, Strauss and Corbin (1998) assisted with further recognition of the use of a case study as a credible research method (Perry & Coote, 1994).

Case study research concentrates on a phenomenon within its social context, using multiple data collection modes and sources (Yin, 1994, Eisenhardt, 1989a). Eisenhardt (1989:8) states, "the case study is a research strategy which focuses on understanding the dynamics present within single settings." Case studies can be either single or multiple cases, and involves numerous levels of analysis (Yin, 1994).

Purposes of this case study research

A major strength of the case study methodology is that it allows holistic real life events to be investigated (Gomm *et al.* 2000; Gummesson, 2000, 2007; Yin 1994). This is an ideal methodology for developing detailed understanding of the complexity in social situations, and enables the researcher to provide rich and thick descriptions of the social world (Black, *et al.* 2006; Davies, 2003; Gummesson, 2007). In particular, qualitative case studies are characterised by the researcher spending a vast amount of time on site, "personally in contact with activities and operations of the case, reflecting, revising meaning of what is going on" (Stake, 1994:242). However, while it may be "more expensive, time-consuming … that's the price of developing knowledge about the real world" (Brun & Kaplan, 1987:4).

Denzin and Lincoln (2000) and Stake (2005) identified three different forms of case study research – intrinsic, instrumental and collective. The intrinsic case enables a superior understanding of that particular case. The instrumental case, aims to provide insight into specific issues or to refine a theoretical construct. The final type of case study research to consider is a collective case, which involves the study of multiple instrumental cases. Multiple ASFs have been chosen to interview because, "understanding them will lead to better understanding, perhaps better theorizing, about a still larger collection of cases" (Stake, 2005: 446).

However, a single case study will be used to explore whether or not there are any linkages between corporate governance and innovation within the ASI to provide insight into an issue

(Stake, 1994) and is selected to advance our understanding. The case study method is suited to research questions that are explanatory, and focus on the 'how' and 'why' questions. The case study method allows investigation into 'how' and 'why' internal contextual factors impact either by way of promotion or hindrance of innovativeness within the superannuation fund. This enables the method to fulfil the objective of identifying emergent themes from the data. The approach was deemed appropriate to conduct a series of interviews within twenty superannuation funds.

A case study methodology has been identified as ideal for investigating new topic areas (such as service industry innovation), in a way which develops rich pictures of the phenomenon in question and allows theory building (Eisenhardt, 1989; Perry, 1998; Stake, 2005; Yin, 1994). This methodology allows for exploratory research to be conducted in this thesis (Eisenhardt, 1989; Yin, 1994). There is little research in this area, and it is exploratory in nature as the phenomenon is complex and human centred. A case study approach here offers clear advantages for this type of investigation as it provides the different contexts on how innovativeness may occur.

One of the most important steps in case study research is the identification of the unit of analysis, or what constitutes a case (Granbaum, 2007). Gerring (2007: 19): notes that, "a case connotes a spatially delineated phenomenon (the unit) observed at a single point in time or over some period of time. It comprises the type of phenomenon that an inference attempts to explain". Case study research is "the intensive study of a single case where the purpose of that study is – at least in part –to shed light on a larger class of cases (a population)" (Gerring, 2007: 21). Given this, the unit or analysis or case may be an individual, a group or organisation, or the entire population of a country. Therefore, this method was adopted which involves 20 funds of analysis within four sectors, (public sector, corporate, retail and industry funds) and the units of analysis are the ASFs interviewed as part of this research. While the method adopted for this analysis was qualitative it is acknowledged that the data from the twenty ASF's does allow for intra group quantitative analysis but this was not the object of the thesis. Notwithstanding this, I have undertaken some intra-industry comparison based on fund characteristics. These ASFs are legal entities, heavily regulated by the Superannuation Industry Supervision legislation in Australia.

Mintzberg (1979:585) highlighted that, "No matter how small our sample or what our interest, we have always tried to go into an organization with a well-defined focus – to collect specific kinds of data systematically". Accordingly, this researcher was focused on interviewees in their office and focused on questions specifically around the topics - corporate governance, innovation and any linkages between the corporate governance and innovation.

Criticism of the Case Study Method

It is important to recognise that case study research is not without criticism, and this criticism may be placed into two main categories. Firstly, there are some academics that criticise validity and the reliability of case studies as a research methodology. For instance, Gerring (2007) highlights how some academics view case study research as unscientific and undisciplined research, producing stories that are ungeneralisable to other contexts. Similarly, Flyvbjerg (2006) identified five misinterpretations about case study research:

i. Theoretical knowledge is better than practical knowledge.
ii. Generalisation is not possible from single case studies.
iii. Case studies are only primarily used for generating hypothesis.
iv. Case studies contain a bias towards verification, and;
v. It is difficult to summarise specific cases.

Limitations of the case study method

Like all research methods, there are limitations with each type of method used, and both qualitative and quantitative research are not without their limitations.

Parkhe (1993), notes that the case study approach has drawn scepticism from the scientific community. Two concerns include the lack of rigor and the limited basis for scientific generalisation (Yin, 2005). To avoid this weakness, whether perceived or not, the approach taken is to generate high reliability and validity and to produce reasonable analytic conclusions and rule out alternative interpretations (Yin, 2005).

Yin (2005) recognised that one important criticism is the element of potential bias of the interviewer and that biased views can influence the direction of the finding. However, this can be overcome by reporting the evidence fairly and objectively, displaying sufficient evidence and in this instance providing a multiple source of evidence for the results of the 20 superannuation funds represented in this research. Rose (1991) highlighted another general criticism of case study research, that interview techniques can often lack representativeness. Some of the interviews were found as a result of the researcher's own networks, after the initial process of choosing the funds through the Australian Institute of Superannuation Trustees (AIST) public membership database to overcome the issue of lack of representativeness[17].

The suitability of the case study method for this thesis

The selection of research method depends on the nature of the study and the aim of the researcher; "different types of case studies are better suited to some methodologies than

[17] A total population survey was not practicable because of time constraints and the sheer volume of superannuation funds registered in Australia. Consequently, the research targeted a small sample of twenty funds with the industry. In total there were 63 interviews. Limitations to this study include: the size of the sample; in time available was restricted because of practical considerations; despite these limitations the data provided findings on an interesting occupational group that has been rarely researched. This study was exploratory in terms of attempting to understand the extent and types of innovation and the impact of corporate governance frameworks in the ASI.

others" (Scapens, 2006: 266). The case study method does not imply a particular collection method, however, it does represent a particular strategy that can be quantative, qualitative or both. Miller and Friesen (1982) characterised qualitative studies that enable more objective and reliable finds.

The advantage of using a single case study approach to examine innovation within superannuation funds in Australia is that it can provide rich contextual information on issues that may not be developed. Support for this approach can be found in Eisenhardt's research (1989a), which described case study research as a novel, testable and an empirically valid approach that is particularly well suited to new research areas, like this one, or research areas for which existing theory is inadequate. It stands to reason that qualitative data are useful in the early stages of research. Similar support is gained by Kaplan (1986) who argued that a case study method provided a mechanism that allowed researchers to understand a phenomenon through 'in-depth' description and understanding.

From the outset, the objective was to gain as much insight and knowledge on this topic, and it seemed most fitting to use a single case study approach to the superannuation industry, as qualitative case studies in particular are typified by the researcher spending a substantial amount of time on site "personally in contact with activities and operations of the case, reflecting, revising meanings of what is going on" (Stake, 1994:242).

In summary, the adoption of the single case study method for this thesis was governed by two main factors, namely the outcome of the literature review; and to gain a detailed understanding of corporate governance and innovation in the context of the ASI.

Literature Review

The literature indicated that the investigation of the relationship between the process of innovation and corporate governance has been limited to date because the leading theories on corporate governance do not systematically integrate an analysis of the economics of innovation (O'Sullivan, 2000). In addition, a further explanation for being overlooked is that empirical research on innovation, to date, has ignored issues of corporate control (for example, Nelson, 1993; Freeman and Soete, 1997; Mowery and Rosenberg, 1998). As this study requires a research method that accounts for both innovation and corporate governance interactions within the ASI, a flexible approach that is receptive to emerging themes, unexpected relationships and new issues is necessary. The case study method enables these qualities to be studied effectively (Eisenhardt, 1989). Yin's (2005) definition of the single case study emphasises its particular suitability in the investigation of corporate governance and innovation. It allows the investigation of the phenomena within the real life context, i.e. corporate governance frameworks and innovation strategies within an ASF.

Innovation may be defined in numerous ways, however, for the purposes of this research, 'innovation' is defined as the introduction of new investments into the superannuation fund or new investment options (Oslo Manual: 2005).

The Australian Superannuation Industry as a Case study

The case study is based on a research agenda that seeks to understand the relationship between corporate governance and innovation. Yin (1994:44) would describe it as a "rare or unique event" for which the case study method is a highly appropriate research design.

The Research Proposal

Given the nature of the phenomena under investigation, the descriptive, explanatory, and exploratory purposes of this research are significantly interrelated. The descriptive purpose is realised by gaining insight of the issues and the complexities of the case. The contextual data serves the exploratory requirements of this research, as it informs the process of theory building (Strauss & Corbin, 1990) and contributes to the explanatory purpose in the identification of the causal links that may be present (Yin, 1994). While the exploratory purpose of this doctoral research is concerned with the discovery of theory from in depth semi-structured interviews, this research does not seek to generate grounded theory in which prior inquiry or the investigator's perspective are excluded from the interpretive process. The literature review undertaken in Chapters Two, Three and Four indicates that governance is an important part of any boardroom agenda and that there are ever increasing challenges for the board. In particular, the current legislative regime and Stronger Super Reforms in 2014 has created its own challenges for trustees. Through the collection of data from multiple sources, and by utilising an open coding technique, discussed later in this chapter, the case study method may be used to both elucidate issues that have been identified previously, and to refine existing theoretical concepts (refer Yin, 2003).

Conduct of the Research

The overall plan of this investigation is based on Yin's (2003) model for case study research. The research process is outlined below.

Sampling

Patton (1990) suggests that sampling captures the difference between qualitative and quantitative methods. Qualitative methods concentrate on in-depth small samples selected purposefully, while quantitative samples concentrate on larger samples selected randomly. This is because the former aims to collect information rich data for an in-depth study in order to add light to the research questions, and the latter's purpose is generalisation (Patton 1990). Patton (1990) detailed several themes of qualitative inquiry, all relevant to this study. [18]

This research is similar to that of other quantitative researchers who work with smaller samples of individuals, nested in their context and studied in-depth (Miles and Huberman, 1994). Sampling in qualitative research involves two actions according to Miles and Huberman (1994). Firstly, the researcher needs to set boundaries to define the aspects of their cases that can be studied within the limits of the researcher's time and means that connect directly to the research questions. Secondly, the researcher needs to create a frame to help them uncover, confirm or qualify the basic processes or constructs that ground the study.

The theory also suggests that the most effective sampling methods are those designed fora specific situation, in this case the examination of the ASI; Eisenhardt, (1989) and Linn (1983) further claim that there is no single preferable method of sampling. Sampling methods should be designed to achieve the specific purposes of the study, effectively under the limitations set by the funds, personnel and other resources that are available at the time. This is an approach to sampling advocated by other case-study researchers (Drever, 1995; Eisenhardt, 1989; Neuman, 2000).

The objective here is to select superannuation funds that are representative of the population of interest, and will prove useful in theory building (Llewellyn, 2007). Selection of Australian

[18] Qualitative data will produce detailed description, in-depth inquiry including people's perceptions and experiences and personal contact and insight by the researcher. Each case is unique and context sensitivity and findings are specific to time and place. Complete objectivity is impossible albeit most researchers attempt to understand through personal experience; and is open to adapting inquiry as understanding deepens or situations change.

superannuation funds for this research occurred by accessing a public list[19] of registered superannuation funds, via the internet, that were members of the Australian Institute of Superannuation Trustees (AIST). At the time, there were only 45 members recorded on a public list and all members were sent a letter requesting them to participate in this research.

A formal university letter was posted to all of the superannuation funds on the AIST publically available list. From the list of 45 superannuation funds, 20 funds agreed to participate and two funds declined to be involved. One government fund in Victoria, despite several attempts to contact the CEO by letter and telephone, and several messages left with different staff members made no contact. Ten letters were returned to sender and the 14 other funds did not respond. At this stage of the process, it was determined not to follow up ASFs that did not respond, as there had been 45 per cent of those funds that had already agreed to participate. Details of the letters of request to participate in this research are attached in Appendix 4. Thompson (1992) acknowledged that it is often impractical for a researcher to interview an entire group of individuals about whom it is hoped to make generalisations. Once the researcher defines the target population, and if it is indeed impractical to interview each member, a representative sample will usually be identified for interview (Burgess, 1982; Thompson, 1992). For this study, the target population was 20 superannuation funds.

Where ‘funds’ are referred to in the subsequent results and discussion chapters this represents the opinions expressed by the interviewees from that fund. Where there was more than one interviewee in the fund, interviews were analysed to determine the overall directions for that fund. That said, board members and CEOs were found to have internally consistent opinions on the issues for which ‘funds’ are used as the frame of reference.

Within funds, CEO and board opinions were identified for some issues, for example for the issue of who initiates innovation. Where this is the case the position of the individual in the fund is given, for example CEO of Fund 15.

[19] Refer to www.aist.asn.au

Review of the Literature

The literature posed in the introduction of this thesis suggests that there are two broad questions to be researched:

1. Is there innovation in the ASI? and if so, how does innovation manifest in this industry?; and
2. What roles do boards and CEOs play in the innovation process in this industry?

The examination of this particular topic defined the units of analysis, the research question and the appropriate method.

The next section in relation to interview preparation establishes the theoretical background to interviewing as a qualitative research method. The second section explains the selection of in-depth interviewing for this study; this includes a description of interview techniques and their role in the interview process. The third section identifies issues and potential challenges to validity and reliability in a qualitative research project of this nature.

This chapter will now provide detail about commonly used interview methods, identify the strengths and weaknesses of each, and finally explain the choice of in-depth interviewing and individual participants for this study.

Interview preparation

Contemporary academics suggest that qualitative interview models lie along a continuum, with structured interviews at one end, semi-structured interviews in between and unstructured interviews at the other end (refer: Babbie, 2007; Bailey, 1999; Drever, 1995; Kidder & Judd, 1986; Patton, 1990; Strauss, 1987). The decision about which interview method to adopt for this study was made after considering the characteristics and research orientation of the most common forms of interview; structured, semi-structured and unstructured.

Minichiello *et al.* (1995) and Oppenheim (1992) describe structured interviews as standardised interviews, predominantly used in surveys or opinion polls. Each participant is asked an identical set of questions in the same order, to ensure comparability and to reduce potential bias (Minichiello *et al.* 1995). The interview schedule, or list of pre-determined questions, usually consists of closed questions with multiple choice answer options. Dick (1990: 13) acknowledges that while closed-ended questions are inflexible, they do in fact enable easier coding of responses and deliver "data which are easily analysed, replicable and economical". One major disadvantage of structured interviews is the limited amount of information the participant can provide. Their thoughts, feelings, and interpretations cannot be expressed (Minichiello *et al.* 1995: 61). Kidder and Judd (1986: 29) suggest that open-ended questions may sometimes be included in structured interviews, but they concede that the information subsequently provided may be difficult to decode and often leads to increased research costs.

Babbie (2002) and Roberts (1988) describe the interview situation as a one-way process, with the interviewer acting as facilitator to collect primarily quantitative data. Some qualitative researchers have criticised the absence of meaningful interaction, resulting in constrained information exchange, as being impersonal and unable to reflect the social reality of qualitative interviewing (see for example Minichiello *et al,* 1995; Oakley, 1988; Roberts, 1988).

Minichiello *et al.* (1995: 77) describes semi-structured interviews as those used to collect both qualitative and quantitative data. This usually involves the use of an interview schedule, which includes key topics for the interview, without specifying questions or their order. There is greater flexibility in questioning, and some divergence is possible to explore issues as they arise (Minichiello *et al.* 1995: 78), albeit this might reduce the comparability of responses. This model is expected to elicit more detailed information about the participant's perceptions. Semi-structured interviews are closer in process to the unstructured model of interviewing as both allow for more in-depth examinations of people and issues (Minichiello *et al.* 1995).

Healey and Rawlinson (1994) identify semi-structured interviews as often adopting a two-tiered approach to the interviews. A semi-structured interview may include a common set of factual questions asked of all participants, and an informal conversation to enable participants to elaborate on topics of interest. Interviews for this research occurred in this manner, however, the interviews were conducted in format of in-depth semi-structured manner because of the obvious advantages that have been highlighted in the theory above.

The interview process relies heavily on the voluntary participation of the interviewees, and on their willingness to disclose and discuss potentially sensitive information. To achieve interview conditions conducive to such disclosure, Barry (1999) highlights that it is imperative that the researcher establishes good rapport. Good rapport was established with all interviewees with this case study. Qualitative research interviews enable a researcher to "see the research topic from the perspective of the interviewee" (King, 2004:11). Interviewing is an efficient means of data collection when the research design involves an analysis of people's motivations, actions and opinions (Keats, 2001), as was the case with this research.

In summary, the main method of data collection employed in this thesis is in-depth semi-structured interviews to identify the key themes underpinning innovation with ASI. As highlighted above, in-depth semi-structured interviews were deemed appropriate for this research given that the issues studied here are exploratory and the study attempts to gain insight into the link (if any) between corporate governance and innovation activities within the superannuation industry. The importance of particular individuals within the organisation (such as the CEO) may be crucial to influencing whether or not innovation actually occurs within the fund by way of an innovation strategy or not.

Individual interviews were scheduled between 45 minutes to an hour determined purely by participant's time availability. In five instances (Funds 2, 4, 7, 9 and 10) several follow up interviews took place with the CEO. The majority of the interviews involved in-depth discussion (with the CEO, Chair, Trustees, Director, senior managers and consultants). This allowed the researcher to elicit both the views of the management and the board as they may not necessarily coincide.

In-depth interviewing

Minichiello, Aroni, Timewell and Alexander (1995) identify a link between in-depth interviewing as a research method and the theoretical and methodological assumptions that are the foundations of the research approach. By choosing the method of in-depth interviewing, Minichiello *et al.* (1995) recognise that the researcher is making a methodological choice and the theoretical antecedents of in-depth interviewing coalesce in what is known by these researchers as the interpretive tradition.

In-depth interviewing is one process that can elicit high-quality data in an informal, flexible manner. Seidman (1991: 72) suggests that much of the value of in-depth interviewing as a research method lies in the close relationship between the participants and researcher.

Seidman (1991) also proposes that the depth of information and exploration of ideas is very much dependent on successful research design, technique and implementation and supports Berry's (2000) view that researchers must plan to overcome a number of potential problems, including interviewer bias, unreliable or distorted responses and the problem of distance between the interviewer and participant's own frame of mind.

Contents of Interviews

In order to examine whether or not the corporate governance frameworks promote or hinder innovation with the ASI questions on overall institutional settings, individual perspectives and strategies were asked also during several interviews. Such as:

a. What are the common governance arrangements within the superannuation industry?
b. Has there been any significant innovation occur within the superannuation industry?
c. What is the fund's governance structure?
d. What is the fund's ownership structure?

Interview questions were prepared in advance through extensive research into the area of corporate governance, new product development and innovation (refer Appendix 5 and Appendix 6). All questions were developed from first principles based on contemporary theory.

Very intensive research was conducted over a 12 week time frame from August 2008 to mid-December 2008 in Victoria. Additional interviews took place during 2009. The original plan was to commence interviews from April 2008 to December 2008, the timeline shifted due to unforeseeable medical circumstances that occurred in April 2008 and required hospitalisation on a daily basis for 16 weeks. This time delay ended up being advantageous for the research, as the interviews commenced during the GFC. This allowed for the subsequent exploration of issues surrounding ASFs and issues facing the particular interviewees representing ASFs during the GFC period which were being addressed as the research was conducted. There were occasions where the researcher was able to reflect with the CEOs of a particular superannuation fund on their comments in relation to their superannuation fund that had been reported in various print publications at the time, including *The Australian, The Age* and *The Financial Review*.

In order to fully cover the research questions it was considered important when conducting the research to have an interview schedule, which served to guide any discussion, and lessened the chance of important topics being neglected. Babbie (2005: 314) cautions that, "it is vital for the qualitative interviewer to be fully familiar with the questions to be asked". Similarly, Schutz (1967, *cited in* Seidman, 1991) identified an equally challenging problem with interpreting interview data; there are internal and external influences on the interview process that result from the gap in knowledge and experience that is present between two people by virtue of their very existence as the interviewee and interviewer.

Interviews

The objective of any qualitative research interview is to view the research topic through the eyes of the interviewee and to understand how and why this individual arrives at this particular perspective. To meet this objective, qualitative interviews will as a general rule have the following characteristics:

a. Low degree of structure imposed by the interviewer.
b. Preponderance for open questions, and:
c. Focus on 'specific situations and action sequences in the world of the interviewee' rather than abstractions and general opinions.

The aim of this research is to explore individual perspectives towards innovation activities and corporate governance, accordingly interviews were deemed appropriate to do this. In addition, there was a series of twenty questions during the interview process asked in relation to innovation and corporate governance of the fund. Questions 1- 6, 8 -11, 13, 15-18 and 20 all allowed for quite lengthy discussions with the interviewees on this topic area of innovation.

Initially, the interviewees were given the same set of questions so that the researcher could compare results. The advantage of this style of interviewing technique is that it could facilitate analysis, allow for validity checks and triangulation administrated.

The data collected was from predominately in-depth semi-structured interviews, including direct quotations from individuals about their experiences, opinions and knowledge. Secondary data, including written documents such as marketing strategies, the funds overall strategic plan, committee structures, and other fund documentation were provided when requested.

The majority of the participants interviewed were in the head offices of large industry funds and other funds (retail and government) which were based in Melbourne. The majority of interviews conducted for this research were face-to-face interviews and were conducted in Melbourne during this time frame. Telephone interviews were also conducted with three funds located in South Australia and New South Wales and face to face interviews with Tasmanian funds. I also had a face to face interview with a NSW CEO.

The interviewer arranged times with all the 20 participating fund CEOs who sometimes suggested that interview co-ordination occur through another person (for example, executive assistants or marketing co-ordinators typically) where there were multiple interview participants within the fund. With three funds, the CEO allocated a contact person inside the organisation to assist with the interviewing schedule, arrange meetings and provided the superannuation fund documents, where requested, and where approved by the CEO.

The initial data collection began in August 2008, and the majority of data was collected by Christmas Eve, 2008. The semi-structured questions allowed for elaboration on certain topics, which proved beneficial with the majority of interviewees answering questions about their superannuation funds (during the peak of the GFC) where global superannuation funds were reporting major financial losses to funds under management.

During the interviews, as noted by Strauss and Corbin (1998), the researcher took full advantage of every opportunity that presented itself to receive information from company documents or from CEOs, Trustees and Chairpersons of other individuals that would add value to this research. The interview process encouraged openness advocated by Strauss and Corbin (1998) and the researcher tried ensure data gathering "too tightly" in terms of the timing. Through adopting this openness interview structure, rich data was obtained from an actuary, asset allocation consultants, accountants and marketing personnel, who were experts in their fields.

The approach adopted is supported by Flick (1998) who acknowledged that a semi-structured approach to interviews allows participants to express their viewpoints in an open manner (Flick, 1998). Nadhakumar and Jones (1997) noted that the lesser degree of structuring in an interview, the greater the chance that the researcher will be able to explore the respondents answers.

Interview process

The objective with the interviews was to try and gain access to senior personnel within the industry, such as CEOs, Chairpersons, Trustees and executives. There were initial reservations by the researcher that it might not be possible to gain access to senior individuals within the ASI, however, upon disclosing that I was currently a trustee of an ASF in Hobart to the interviewees, there was no difficulty in gaining participants for the interview process.

Initially, this research was going to ascertain the social, economic and educational backgrounds of the interviewees and all of the board members of these participating superannuation funds. However, at the commencement of this research, confidential and detailed discussions took place with Mr Andrew Barr, at the AIST to seek guidance on the best way to obtain this type of information on trustees. At the time, the Mr Barr advised that the AIST were in the process of developing a survey to send out to all trustee members throughout Australia that were members of the AIST to collect information in relation to *inter alia* trustee's education, skills, education, and qualifications. So rather than duplicate the process at the same time and risk a lower response rate on either or both surveys, permission was sought from the AIST to gain access to the raw data from their survey once it was collected and collated. The CEO of AIST approved availability to data sets, at the time and the data was eventually provided to me approximately 12 months later. This approach assisted me on two levels: firstly, the savings in relation to distribution costs from the survey and take up rate by trustees of ASFs. There were grave concerns that had the AIST survey arrived prior to any correspondence from me then the response rate may be nominal and have a negative impact on this research. Due to the sheer volume of data from the AIST's survey, I decided to store this data, and use it in further publications and postdoctoral work. The outcome of this decision was that the Policy and Research Manager of AIST, agreed to provide me with all the results at the completion of their survey.

As mentioned earlier, this research draws on a series of semi-structured in-depth interviews carried out with Chairpersons, Trustees, Chief Executive Officers, Chief Financial Officers, Chief Information Officers, Executive Managers, Accountants, Asset Allocation consultants, and Actuaries of major superannuation funds in Australia. This included 14 industry funds, two public offer funds, two government (public sector) funds and two corporate funds. Table 10 provides a de-identified list of the superannuation funds interviewed for this thesis. The major questions, refer Appendix 5, asked in the interview process were structured towards gaining insight into corporate governance and innovation activities within their fund.

Pilot Interviewing

In Melbourne, research questions (Appendix 5,6 & 7) were piloted in a very large industry fund (Fund 2) and with the support of the CEO and its management team, I was able to gain excellent data and receive feedback on these specific questions. A consent form was provided to all participants (Appendix 8). A senior manager, who had recently completed a Master Degree in Strategic Management at Melbourne University and had extensive experience within the financial services sector was extremely insightful with this process.

After the pilot interviews in Fund 2 took place, and reflection of the process, the researcher felt confident that the research questions would provide insight into the area of innovation and corporate governance and allowed for comparison between the funds and theory development. The interview process followed an informal manner to position both the interviewer and interviewee on a similar power level, so that the interviewee was not just a 'passive vessel of answers' (Black & Champion, 1976; Holstein & Curium in Weinberg, 2002).

As a process it involved a number of predetermined questions (Refer Appendix 5) and allowed for the questions to be asked in a consistent manner. The interviewer was able to investigate beyond the responses to the prepared, standardised questions. Consequently, this allowed for a greater 'depth and detail of information' to be solicited. The use of open questions allowed individual respondents to express their own opinions. Each interview followed the same structure, based on the semi-structured style described above. Therefore, the interviewees' answers were only limited by the specificity of the questions, which were designed to prevent deviation from the topics of innovation and corporate governance. Accordingly, this type of interview technique allows findings to be more detailed.

The selection of in-depth semi-structured questions for this research was a decision informed largely by the need to gain insight into the board operations of Australian superannuation funds in relation to innovation and corporate governance. Bryan (1988) contends that in-depth interviewing is utilised when a particular research question dictates it as the most appropriate form of data-collection; case-study research is one such situation.

The next section explains the specific interview techniques employed in the interviews and the reasons for their selection. Perhaps the most obvious element of interviews is the verbal interaction between the interviewer and the interviewee. A number of scholars (Dexter, 1970; Dick, 1990; Driver, 1996; Minichiello *et al.* 1995) consider the interviewer's questioning technique as central to the success of an interview. Questioning techniques will vary depending on the model of interview employed and these techniques are relevant to this study because they facilitate qualitative data collection without restricting the participants' ability to interpret and emphasise events from their own perspective.

In the in-depth interview approach, the first task for an interviewer is to establish rapport with the participants. Berry (2000) describes establishing rapport, as a matter of understanding another's view of the world and communicating your understanding appropriately. It is regarded as an important interview technique because the dynamic between interviewer and participant can significantly affect the interview process. Berry (2000) and Kzale (1996) suggest that rapport can be established in a number of ways, including visibly respecting the informants' opinions, supporting their feelings, and acknowledging their responses. Minichiello *et al.* (1995: 80) also advocate reflecting participant behaviour during an interview; rapport can be achieved by, "matching the perceptual language, the images of the world, the speech patterns, pitch, tone, speed, the overall posture and the breathing patterns of the informant."

Kzale (1996: 128-148) concurs: "A good contact is established by attentive listening, with the interviewer showing interest, understanding, and respect for what the subjects say…[a good interviewer] allows subjects to finish what they are saying, lets them proceed at their own rate of thinking and speaking."

Advocates of in-depth interviewing (refer Dexter, 1970; Dick, 1999; Taylor & Bogdan, 1984) recommend that the interviewer set the tone of the relationship with the interviewee by appearing willing to learn from them, receptive to their ideas and sensitive to emotional cues. During the scheduling of interviews, participants could determine the interview locations and scheduling to suit their personal commitments initially establishing rapport.

At the start of each interview the interviewer would identify her own background as a superannuation trustee, that information would be kept confidential and that the interviewer had strong interest in corporate governance within the superannuation industry. By providing some context for this research, and the personal motivations and background, as a trustee, the researcher was hoping to establish a relationship of mutual respect from the outset. During the interviews, the researcher sought to convey a sense of personal and professional interest in their individual account and sought to build greater rapport and elicit information that might otherwise have been withheld. The researcher believes she achieved this goal successfully. On five occasions (Funds 2, 4, 7, 9 and 10) it was possible to have follow-up interviews with CEOs to seek further clarification and confirmation on data.

The interviews were mostly allocated on an hourly basis (unless otherwise determined by the interviewee at the time of scheduling of the interview). Often back-to back interviews were conducted on several occasions within a particular fund on the day or that week, to try and gain as much insight as possible in relation to that particular fund. More often than not, interviews exceeded an hour.

The challenge for this study is to elicit rich data from the interviewees, without compromising rigour. To enhance research rigour, interview data will be triangulated with any secondary source data provided by the fund itself, annual reports, and other data. At each interview, field notes were taken that were transcribed later. This process allowed an additional opportunity to reflect on the content of each interview.

Bobbie (2002) contends that in-depth interviewing elicits information that the researcher can use to build on existing theory and knowledge. Similarly, Driver (1996: 6) and Neumann (2000: 168) agree that this approach allows the researcher to select cases cumulatively and without the compulsion to generalise to a larger population. One of the major reasons why this research included the approach of in-depth interviews in a semi-structured manner is that the interview approach is most frequently undertaken with participants purposely selected on the basis of some unique characteristic, or because they are members of a distinct and difficult to access group. Interviewees were selected because they occupied senior positions in the ASI and had a wealth of experience, insight and knowledge and the participants are normally a very difficult group to access.

The selection of a research method and study participants, however, does not guarantee a valid or reliable study. The concepts of validity and reliability are central to any discussion about rigour in research (Eisenhardt, 1989). Burgess (1991) describes validity as whether the methods, techniques and approaches used in the research relate to and measure the data appropriately. Burgess (1991) and Eisenhardt (1989) note the two problems of validity often confronting in-depth interviewers: firstly the potential influence of the interviewer on the interviewee's response (internal validity); and secondly, whether the data obtained can be generalised (external validity). To address this, many researchers adopt the use of triangulation (see for example Denzin & Lincoln, 1994; Dick, 1999; Minichiello *et al.* 1995; Neuman, 2000). Swepson (2000: 3) defines triangulation as the "amalgamation of different methods of collecting data in the study of the same phenomenon." Triangulation aims to avoid problems of bias and validity by mitigating the deficiencies of one method with the strengths of another (Denzin & Lincoln, 1994; Dick, 1999; Swepson, 2000).

Triangulation is another term that provides a rationale for using different sources of evidence for qualitative purposes. The concept of triangulation is defined as the application of multiple methods in one study – to qualitative data to strengthen the depth and breadth of case study findings. Interviews are the most common data gathering method for case studies and using several different methods enables triangulation, that is, the information received from different data can be compared, which according to Silverman (2011) increases validity.

In this research, qualitative research methodology is informative because exploration of relationships of a wide variety of exploratory factors such as corporate governance systems, innovation activities, changing legal frameworks are possible and important in the context of this research. This thesis used multiple methods of primary data collection, an approach referred to above as triangulation (Denzin, 2006; Flick, 2002). Mason (2002: 33) noted, the aim of triangulation is to “seek to corroborate one source and method with another…and to enhance the quality of the data”.

A second problem confronting researchers is that of reliability, or the credibility of the research method itself. Minichiello *et al.* (1995: 178) identifies some key steps that can be taken by the researcher to reasonably assess reliability, including:

> *[Documenting] how and why the researcher made certain decisions in the research process; their perceived impact on researcher and informant/s; how the data were collected (interviews only or personal documents in addition to in-depth interviews or multi-method use); and how they were analysed.*

The goal of reliability is to minimise the errors and biases in research. Hammersley (1992) noted that reliability refers to the degree of consistency with which instances are assigned to the same category by different observers or by the same observers on different occasions. What can be drawn from this quote is that *if* in the future (and subject to the same environmental factors and same legislative requirements for the superannuation funds in

Australia) another researcher followed exactly the same procedures and repeated the multiple interviews which asked exactly the same questions of the same interviewees, the researcher could arrive at the same findings and the same conclusion.

Research validity is enhanced in this research by a high level of interviewee participation and feedback, and by reference to secondary source material such as fund documents on strategy, marketing, organisational charts, committee charters and investment strategies. Yin (2003) argued that internal validity is only of concern for a casual (explanatory) case study in which an investigator is trying to determine whether event *x* led to event *y*. As a general rule, validity is in relation to confidence in the interpretation or conclusions drawn from the data (Stiles and Taylor, 1993). Guion (2002) notes that triangulation is a method used to check and establish validity in their studies. In summary, this research meets the criteria for reliability and flexibility recommended by Dick (1999). This thesis addresses the issues of validity and reliability through triangulation of secondary source material and the transcripts of semi-structured in-depth interviews to elicit high-quality data.

Participants interview preparation

In respect of the interview data, each interviewee who represented a superannuation fund answered research questions according to their position within the fund, their experience within the industry, their insight into the experience, as well as their skills mix and education. This could be biased. Therefore, in order to obtain diverse perspectives from the participants, it was important to conduct interviews with employees at different levels within the superannuation fund. Twenty funds agreed to participate in this research and 63 interviews in total were conducted. Table 10 below records the title of each interviewee and their representative ASF. Where multiple interviews were conducted within one fund, the material was analysed for an overall opinion of the fund's performance.

Table 10: Interview Schedule[20]

Interview Number	Fund	Title of Role	Date	Type of Fund
1.	Fund 2	Manager of Strategic Marketing	21 August 2008 10.00am – 11.00am	Industry
2.	Fund 2	Manager – Compliance and Risk	26 August 2008 10.00 – 10.45am	Industry
3.	Fund 2	Senior – Human Resources Consultant	26 August 2008 12.00 to 12.45pm	Industry
4.	Fund 2	Manager – Administration and Insurance	26 August 2008 11.00am – 11.45am	Industry
5.	Fund 2	Manager – Investments	26 August 2008 1 hour interview	Industry
6.	Fund 2	Director – Operations	27 August 2008 12.00 – 1.00pm	Industry
7.	Fund 2	Director – Marketing	28 August 2008 11.30 – 12.15	Industry
8.	Fund 2	CEO	21 August 2008 11.45am – 12.30pm	Industry
9.	Fund 2	CEO	4 September 11.45 – 12.45pm	Industry
10.	Fund 15	CIO	30 August 2008 10.00am - 11.00am (via phone)	Corp
11.	Fund 10	CEO	15 October 2008 1.5 hours	Industry
12.	Fund 10	CFO	15 October 2008 1.5 hours	Industry
13.	Fund 10	CEO	15 October 2008 1.5 hours	Industry
14.	Fund 14	CEO	22 October 2008 1 hour	Govt
15.	Fund 14	Client Services Manager	22 October 2008 10.00am – 11.00am	Govt
16.	Fund 11	CEO	23 October 2008 1.5 hours	Industry
17.	Fund 11	CEO	6 Nov 2008 12 1.00pm	Industry
18.	Fund 13	CEO	23 October 2008 1hour	Industry
19.	Fund 13	CEO	6 November 2008 1hour	Industry
20.	Fund 12	CEO	23 Oct 2008 1.5 hours	Industry
21.	Fund 12	CEO	6 November 2008 1hour	Industry
22.	Fund 1	Trustee	9 December 2008 9.30am – 10.30am	Industry

[20] RACV Superannuation Fund replied that were unable to participate – as the fund was in the process of being outsourced. AustSafe Super replied advising they would not participate. Westpac Staff Super advised they would not be participating with this research. Cadbury Schweppes replied advising that they would not participate as their superannuation fund has now merged with Mercer. Catholic Superannuation & Retirement Fund advised that the CEO was away on sabbatical leave, so unable to participate in this research at this stage.

Interview Number	Fund	Title of Role	Date	Type of Fund
23.	Fund 1	Manager- Client Services	10 December 2008 1 hour (via phone)	Industry
24.	Fund 9	Marketing Manager	9 December 2008 10.45am – 11.30	Industry
25.	Fund 9	Manager – Compliance	9 December 2008	Industry
26.	Fund 9	Director – Marketing	9 Dec 2008 11.30 – 12.45pm	Industry
27.	Fund 9	CEO	9 December 2008 4.00pm – 5.30pm	Industry
28.	Fund 5	Trustee	9 December 2008 1hour	Public Offer
29.	Fund 7	Trustee	9 December 2008 1 hour	Industry
30.	Fund 20	CIO	28 October 2008 1.15pm – 2.30pm	Industry
31.	Fund 17	CEO	1 hour	Public Offer
32.	Fund 19	CIO	1.15 hour	Industry
33.	Fund 8	CEO	September 2008 2 hours	Industry
34.	Fund 8	CEO	October 2008 1.5 hour	Industry
35.	Fund 7	Chair	27 November 2008 11.00am – Noon	Industry
36.	Fund 16	Chair	27 November 2008 12.30 – 2pm	Industry
37.	Fund 4	CEO	23 October 2008 1.5 hour	Industry
38.	Fund 4	CEO	1.0 hour (follow up interview)	Industry
39.	Fund 4	CEO	2 hours (follow up interview)	Industry
40.	Asset Allocation Consultant (Business A)	Head of Investment Consulting	10 December 2008 10.00am – 11.00am	Expert
41.	Asset Allocation Consultant (Business B)	Director	1 hour June 2009 (Hobart)	Expert
42.	Asset Allocation Consultant (Business A)	Investment Advisor	1 hour (via phone) December 2008	Expert
43.	Brokers	Head – Property Derivatives	1 Hour December 2008 – 1 hr via phone (NSW)	Expert
44.	Superannuation research company	Director – research	December 2008 – 1 hr	
45.	Fund 18	CEO	January 2009 1.8 hours	Industry
46.	Fund 18	CEO	18 September 2008 1.5 hours	Industry
47.	Fund 18	Investment Manager	via phone (NSW) September 2008 1.5 hours	Industry
48.	Fund 18	COO	via phone (NSW) September 2008 1 hour	Industry

Interview Number	Fund	Title of Role	Date	Type of Fund
49.	Fund 18	Company Secretary	via phone (NSW) 1 hour September 2008	Industry
50.	Fund 18	Chair	via phone (NSW) 1.2 hours September 2008	Industry
51.	Funds Management Entity	CIO	April 2008 via phone 1.5 hours	Industry
52.	Fund 6	Trustee	June 2009 1 hour	Industry
53.	Fund 4	CEO	June 2009 1 hour	Industry
54.	Large Accounting Firm	Actuary	June 2009 1.5 hours	
55.	Fund 3	Trustee	July 2009 1 hour	Govt
56	Fund 3	Trustee	July 2009 1 hour	Govt
57.	Fund 3	Chair	August 2009 1 hour	Govt
58.	Fund 3	Chair	August 2009 1 hour (follow up interview)	Govt
59.	Accountancy Firm – Melbourne	Snr. Accountant	August 2008 1 hour	
60.	Asset Allocation Firm (From Business A)	Asset Allocation Consultant	July 2009 1.2 hours	
61.	Consulting Business	Actuary	March 2008 1 hour	
62.	Business Entity	Chair	April 2008 1 hour	
62.	AIST	CEO	September 2008 45 minutes	
63.	AIST	Manager	September 2008 – 1 hour	

A Case Study Research Approach

The single study of the ASI was researched over a period of 12 months and the process is set out below.

Combining the Research Purpose with the Research Question

The research question was considered within the descriptive, exploratory and explanatory purposes of the study. Subsequently, a suitable method of data collection and examination was constructed. This provided the researcher with a process upon which the dates were gathered and later analysed.

Unit of Analysis

Case studies comprise a single unit of analysis based upon depth that is both holistic and exhaustive (Ball, 1996). Within the single unit of analysis, namely the ASI, it is important to analyse multiple units, as with the 20 superannuation funds in this case study. Yin (1994: 41) terms the use of multiple units of analysis in a single case study as an "embedded case study design". Yin (1994: 44), further notes that the multilevel units of analysis: "… incorporate subunits of analyses, so that a more complex – or embedded – design is developed. The subunits can often add significant opportunities for extensive analysis, enhancing the insights into the single case."

Data Collection

Primary data is that which originates from a researcher's specific inquiry into a research problem. This study incorporates both primary and secondary documentation where appropriate, with validation mechanisms to control their validity and reliability.

Due to the weakness and strengths inherent in any single research method, Babbie (2001) recommends that multiple methods of inquiry be incorporated into case study research in order to overcome analytical and validity problems associated with single research methods. Babbie (2001), Hakim (1987) and Yin (2005) recommend the use of several different sources of data and the incorporation of different research methods to capture data, otherwise known as 'triangulation,' as a valuable research strategy and this was incorporated into this research.

Case Analysis

The aim of the case study analysis is to summarise observations in such a manner that they yield answers to research questions (Yin, 2005). As recommended by Miles and Huberman (1994), data from the research was continually analysed throughout the data gathering process. With continuous analysis of the interview data any confusion, contradictions, missing data could be followed up immediately. The process for the case analysis is set out below.

Transcribing the Data

The contemporaneous transcription of the interviews enables the researcher to account for the exchange. The interview transcripts serve four major functions. Firstly, it recaptures the essence of the exchange and allows the researcher to reflect on the meaning of what participants answered during the course of the interview. Secondly, it encourages the researcher to reflect on the relationship between what had been noted and the objective of the study. Thirdly, it assists with determining what material was relevant and what themes are worth coding. The final function is that it enables preliminary coding decisions to be made.

Data categorisation and Coding

The most exacting part of the research method is the approach used to code and analyse the interview transcripts, which requires procedures and processes for handling, organising and analysis.

Data categorisation allows for the organisation of various dimensions of the data, collected by grouping together attributes that relate to the concepts being examined. By arranging categories exclusive, exhaustive and based in a single classification (Denzin & Lincoln, 1994) data was clustered together to facilitate an interpretive process.

Data coding refers to the appointment of titles to salient elements in the data in order to assign them to an appropriate category (Schwandt, 1997). Fleet and Cambourne (1989) recognised that data coding and labelling must fulfil three major criteria. Firstly, it must be consistent across the entire data collection. Secondly, it must precisely indicate what information is constituted by each code. The final criteria involve the alignment with the locus of enquiry. Miles and Huberman (1994) recommend that data codes should be assigned throughout the entire data gathering process. By doing this, it allows for the discovery of any other issues that may require further investigation, any refocussing of research questions (if appropriate), the generation of additional codes (if deemed necessary), and refining of existing codes. The complete coding system is provided later in this chapter.

Given the qualitative nature of the research, the data was analysed in the context of relevance to the two main research questions. This was undertaken by using the principles outlined by Becker and Geer (1982:245) that the coding should be:

i. Inclusive. For instance, any incident should be coded under a category, if there is initially any reason to believe that it might be considered relevant. An incident which is considered irrelevant can simply be eliminated;
ii. By incidents: either complete verbal expressions or complete acts by an individual;
iii. 'Full'. That is, the incident being coded should be summarised in all its relevant detail: the idea expressed, the actions taken, the people present, the date and the setting.

Data Interpretation

The researcher has an obligation to disclose the manner in which the data will be interpreted to the reader (Bachor, 2002). There are nine tactics for data interpretation according to Miles and Hubermann (1994). These tactics include: noting patterns and themes; seeking plausibility; clustering; subsuming particulars into the general; factor analysis; noting relationships between variables; finding interview variables; building a logical chain of evidence and making conceptual or theoretical coherence.

Verification of conclusions

The process of verifying the conclusions of this research arise out of the concerns in relation to reliability and validity. Miles and Huberman (1994) provide a number of tactics for verifying the outcomes of qualitative research which are used by this study and are outlined in Appendix 9. The tactics were applied throughout the interpretation process, in accordance with views by Webb, Campbell, Schwartz and Sechrest (1996: 66) that researchers should: "…begin with tactics that are aimed at assuring the basic quality of the data, then move to those that check findings by various contrasts, then conclude with tactics that take a sceptical, demanding approach to emerging explanations."

Method of data analysis

The interpretation of the data was based on NVivo principles. The method used for interrogating the data involved first the coding process as described by Strauss (1987) and Denzin and Lincoln (2000). The essential tasks associated with coding are sampling, identifying themes, building codebooks, marking texts and constructing models. This is based on a methodology where codes or subheadings are formed to link raw data, for example, phrase, quotes or sentences from the interviews (as in this case study) and documentary evidence to key concepts and themes based around interview questions on corporate governance and innovation in Appendix 5.

As mentioned earlier, evidence was gathered from a series of sources including: interviews, company documents and SIS legislation. Data was under the following categories (which are categorised as Tree Nodes in NVivo software):

i. New product development
ii. Success of new product development
iii. Formal processes to bring new product development to market
iv. Market intelligence
v. Culture inhibiting innovation
vi. Culture promoting innovation
vii. Boards role in NPD or innovation
viii. Entity's Product development focus
ix. Growth rate of new members
x. Growth rate of new employers to the fund
xi. Growth of market share
xii. Industry benchmark
xiii. Competitive analysis
xiv. Government impact on Innovation
xv. Regulatory frameworks of SIS

Other themes that emerged from the data analysis:

i. Market influences
ii. Culture
iii. Insurance offerings
iv. Legislation
v. Committees
vi. Trustees experience and qualification

vii. Leadership
viii. Collaboration between funds
ix. Innovation process
x. Innovation strategy

Coding was useful for subsequent analysis as it allowed for the facilitation and interrogation of large quantities of data captured in interview transcripts and fund documentation. This was particularly useful as data relating to different themes did not follow a prescriptive order for interview questions. Coding was useful with the identification of relevant themes. All of the data was subsequently arranged in the coded structure described above.

The next phase was to represent the data according to the theoretical construct that was developed. This involved outlining a framework around the fund in a systemic context, finding out the type and extent of innovation activities in the ASI and the impact on the corporate governance framework. The next and most essential step involved exploring the promotion or hindrance of innovation within the context of an ASF. All data collected was analysed in normal qualitative ways, through coding in coherent theoretical categories. Reliability and validity issues were also taken into consideration during the whole process of data analysis.

Stage One Coding

The initial categories were based upon the subordinate units of analysis, in particular, the characteristics of the case study that the researcher sought to understand. Namely:

- Is there innovation in the ASI, and if so how does innovation manifest in this industry?, and:
- What role do boards and CEOs play in the innovation process in this industry?

Based on NVivo software principles these would appear with computer software as Node One: Corporate Governance and Node Two: Innovation. The interview transcripts were then scrutinised for significant terms and issues located therein according to units of observations, and coded according to the above mentioned two broad categories.

Stage Two Coding

Other categories were created to categorise the results of the analysis of the two main categories. These further categories, refer to the themes above, were determined by the units of analysis. The bulk of the data investigated was based on explicit use of coding principles. The manner in which this material was used to develop the outcomes of the study is presented in the next section.

Developing Research Outcomes

Consistent with the earlier stated research purposes, the analysis led to descriptive, expiatory and explanatory outcomes that are outlined below.

The Descriptive Outcome

The role of description in qualitative inquiry extends beyond mere description of the case study. Rather, it involves the presentation of the issues and themes that are central to the analysis either the illustration of a particular theme, or a method of demonstrating a combination of issues (Denzin & Lincoln, 1994). Considering that this research involved the input of 63 participants whose experience of the phenomena stretches over 25 years, the issues and themes in this research were contextually bound, and therefore, their purpose and meaning could not be captured without first understanding their origins. The complexity of the industry could only be understood by producing ‘thick descriptions’ of the contextual elements, an approach suggested by Guba and Lincoln (1981).

The Exploratory Outcome

The unique feature of inductive inquiry is that the theoretical concepts emerge from the case study rather than being imposed upon it (Denzin & Linclon, 1994). Inductive research is related to symbolic interaction (Chentiz & Swanson, 1986), a theoretical model in which inquiry focuses on the ways individuals communicate and interpret meaning and produces valuable research outcomes that are ‘less sterile’ than hypothesis testing. The generation of theory from a single case study data for this research used four procedures: category development; linking categories; examining emerging links; and connecting with existing theory. Each category is briefly outlined below. Category development was developed through the coding process and data was assigned to emerging categories to build a hierarchy of ‘units of analyses.’ Field and Morse (1985: 111) suggest that “identified categories are accumulated until it becomes clear to the researcher those properties and characteristics of the elements which fit into that particular category. The researcher can then identify the criteria for further instances that would fit the specific category. A category is saturated when no new information on the characteristics of the category are forthcoming (1985:11)[21].

Once a category was considered ‘saturated’, a definition based on its inherent properties was formulated so as to demonstrate further data collection and encourage theoretical reflection. In some instances, categories were refined. The links between the various categories were

[21] A minimum of 100 hours was spent conducting 63 lengthy and in-depth semi structured interviews with interviewees by this researcher. All interviewees were asked the same questions in the first phase of the interviewing process. The researcher reached a point in the interview process where I questioned how many more funds the researcher would now need to interview as I felt that the research had reached a saturation point. Subsequently, the researcher conducted ten additional interviews, which did not add any new data, and interviewees repeated similar answers. It was clear that the data collection had reached a saturation point. Guidance was sought from my co-supervisor on when to cease the interviewing process as it was becoming increasingly apparent that no new information on the research topic area was being collected. Yet other ASFs were willing to participate. Accordingly, no other ASFs were added to the interviewing schedule as it was considered the data collection had reached theoretical saturation[21].

then identified. In order to test the emerging links between innovation and corporate governance, individual perspectives were investigated:

> *A step in shaping hypotheses is verifying that the emergent relationships between constructs fit with the evidence in each case. Sometimes a relationship is confirmed by the case evidence, while at other times it is revised, disconfirmed, or thrown out for insufficient evidence. This verification process is similar to that in traditional hypothesis research.* (Eisenhardt, 1989: 542)

Eisenhardt's (1989) approach is not dissimilar to Yin's (2005) tactic of pattern matching. Hartwig and Dearing (1979:9) highlight that procedure by recognising that the "underlying assumption of the exploratory approach is that the more one knows about the data, the more effectively data can be used to develop, test, and refine theory".

The Explanatory Outcome

Qualitative inquiry explanation is based around the researcher's observation from case description (Denzin and Lincoln, 1994). Due to the complexity of the interrelationships involved here, the explanatory approach process relies on organising and incorporating ideas in relation to how the phenomena are interrelated (Polit & Hungler, 1993). While the process of explanation building from a case study approach is not well documented, Yin (2005) notes that the final explanation of the data results from a series of iterations and recommends the follow procedures are adopted:

- Make an initial theoretical statement or an initial proposition.
- Compare the findings of an initial case against such a statement or proposition.
- Revise the statement or proposition.
- Compare the revision to the facts;, and:

- Repeat the process as many times as required.

While Yin's (2005) process referred to multiple case studies, the basic principles were applied to this research.

Ethical issues relating to case study research

An important issue of this research is to protect the anonymity of the interviewees who participated. Details of the doctoral thesis in relation to the specific issues of anonymity and informed consent are filed with the University Human Research Ethics Committee of the University of Tasmania. Ethical clearance for the conduct of this research was obtained from the Ethics Committee prior to the commencement of data collection.

Chapter Summary

This chapter described the methodological issues in relation to this research. Grounded in the need for qualitative approach to the broad research question, a single case study method was used to provide a discussion on the descriptive, exploratory and explanatory purpose of this research. Information was gathered using in-depth semi-structured interviews and documents. Verification was essential to the research, and was adopted at every stage of the research. The process elements were particularly influenced by Eisenhardt (1989), Miles and Huberman (1994) and Yin (2005). The categorisation, coding and analysis of the data were based on principles outlined throughout this chapter.

The next chapter will present the results from this research, and are discussed as set out with the 'organisation of the thesis' presented in Introduction.

CHAPTER 6: RESULTS

Background

As indicated in the Methods Chapter, this research has relied upon in-depth interviews with superannuation fund trustees, senior management, middle management, chairmen of superannuation funds, chief executive officers, chief financial officers, chief information officers, asset allocation consultants, accountants, actuaries, consultants, industry experts and other personnel employed by or consult to the sample of 20 superannuation funds in Australia. The combination of inside information, experience and the insight in relation to the superannuation industry from experts has assisted enormously to better understand the type and extent of innovation occurring within an ASF and the ASI and overall the governance frameworks operating within the industry.

The sample (n= 20) of ASFs included two corporate funds, three public offer funds, two public sector funds and 14 industry funds. Twenty five per cent of the participants were unable to cite any examples of innovation within their ASF. Table 11 details the type and size of the funds examined.

Table 11: Classification of the superannuation funds participating in this research

Fund Identifier	Fund Type	Funds Under Management $AUD	No. of Members
1	Industry	> $20 Billion	>700, 000
2	Industry	> $20 Billion	>700, 000
3	Government	> $3 Billion	<100, 000
4	Industry	< $1 Billion	<100, 000
5	Public Offer	>$10 Billion	>200, 000
6	Industry	> $ 3 Billion	> 200,000
7	Industry	>$20 Billion	<500,000
8	Industry	>$30 Billion	>700,000
9	Corporate	>$10 Billion	>100,000
10	Industry	>$10 Billion	<500,000
11	Industry	>$10 Billion	<500,000
12	Industry	>$10 Billion	<500,000
13	Industry	<$3 Billion	<100,000
14	Government	>$10 Billion	>200, 000
15	Corporate	>$1 Billion	<100,000
16	Industry	<$1 Billion	<100,000
17	Public Offer	>$ 30 Billion	>700,000
18	Industry	<$1 Billion	<100,000
19	Industry	>$10 Billion	>700,000
20	Industry	<$ 3 Billion	>100, 000

The research commenced at the beginning of a Global Financial Crisis (GFC) that posed significant threats to the global superannuation industry. Meeting these challenges imposed by the GFC was perceived by participants as weighing heavily on the board and governance of their superannuation fund. Participants reported that their fund experienced heavy losses at this time. Interviewees reported that this pattern of major losses to funds had a rippling effect throughout the industry globally.

Research Question 1: Is there innovation in ASI? And if so, how does innovation manifest in this industry?

Sub-question 1: To what extent are Australian superannuation funds innovative?

The data set provides responses to the extent of innovation within the sample group of superannuation funds. With reference to Appendix 2 and the data set (see Appendix 10), the findings reveal that innovation as measured by new product development focus (NPD) and the existence of innovation occurs within the ASI despite the heavy regulation of the industry. How this innovation occurs is explored later in this chapter, with reference to factors such as government regulations, leadership and any board influence.

The process of innovation in these funds was fostered and developed in different ways. Through the interviews it was discovered that the capacity to generate innovative ideas was facilitated through several main channels. These include: CEO's leadership[22]; the Executive Management Team (EMT)[23]; committees (such as a marketing committee); and individual trustees.

[22] Several CEOs interviewed were very influential in the promotion of innovation within their fund culture (either on an operational basis or at a strategic level).
[23] Innovation could be driven by an executive management team (EMT) or individual members of that EMT (normally senior managers) and supported by the CEO.

In terms of the process to get ideas from the committee to the board, this included discussion papers submitted with board agenda papers or a formal presentation to the board by the marketing committee. Funds 2 and 8 reported this was common-practice within their ASF to report on marketing activities that may include NPD.

In relation to whether trustees drove innovation at board meetings, interviewees from 11 ASFs highlighted that their board actively debated NPD issues (via discussion papers or presentations) but seldom did an individual trustee drive innovation ideas. Interviewees representing 17 funds (85 per cent) reported that trustees did not drive innovation at board level.

Despite a heavily regulated corporate governance framework existing within the ASI, innovation occurs and interviews revealed that leadership is crucial to the fostering of any culture of innovation within any fund. With reference to the answers provided by the respondents, the strength of leadership of the CEO is a key variable in the dynamic with an organisation's capacity to innovate.

To measure whether new product development occurred, questions in relation to NPD were asked. The definition in relation to product innovation and new product development was used as a guide and is outlined in Chapter Three. The results recorded that the majority [n = 16] of ASF interviewed recognised that some level of innovation occurred within their fund. Eighty per cent of the sample did focus on NPD and an overall organisational focus on product development occurred with 75 per cent of respondents agreeing positively. Interestingly, 85 per cent of the sample could not measure the financial impact of the NPD within their ASF.

Sub-question 2: What types of innovation occur within the ASI?

Interviewees were asked: What type of innovation occurs within the industry?

In the context of the ASI, funds were trying to acquire and retain members to maintain or increase economies of scale. It would be reasonable to propose that some level of innovation would occur within an ASF particularly but not limited to marketing related innovations.

Radical innovation and incremental innovation terms were obtained by Moller, Rajala and Westerlund (2008:34). "Incremental service innovation describes a value-creation strategy in which services are employed for the incremental addition of value. The key idea is that through mutual investments and adaptions a service provider and a client can produce more effective solutions than existing ones. This incremental value-added strategy … adds value to the existing market solutions … radical service innovation describes an approach that pursues value creation through novel service concepts. The developers of these service innovations aim to produce new technologies, offerings, or business concepts as well as their commercialization through advances services. Such future-orientated value production often involves radical system wide changes in existing value systems and poses great uncertainty in terms of the value potential and value capture…".

Table 12 below was compiled to highlight the different types of innovation, cited by participants, that has occurred within the ASI.

Table 12: Title: The types of innovation discovered within the ASI

Types of Innovation	Basic Characteristics	Fund Type	Radical or Incremental Innovation
Pension products – guaranteed minimum pension for life	A guaranteed income for the life of a particular individual that will provide a steady income in retirement.	Industry	Radical

Types of Innovation	Basic Characteristics	Fund Type	Radical or Incremental Innovation
Insurance products	Death cover and total and permanent insurance offered by all funds. The introduction of other insurance products such as income protection and health insurance.	Industry, corporate, government and public offer	Incremental
Life stage marketing segmentation model	A well thought out strategy to communicate with the funds members, according to the life stage of the particular member. The advantages of this life stage targeted marketing approach includes higher retention rate of members, less operational costs for direct mail outs to all members and new product offerings.	Industry	Radical
Merger between two large industry funds **Merger small fund with a large industry fund**	The merger of two superannuation funds creates cost efficiencies and member value tangible benefits.	Industry	Radical
Group life policy	Offered to members by funds. By purchasing coverage, the cost to each member is less than if that individual had to purchase insurance individually.	Industry	Incremental
Disintermediation	Disintermediation is the removal of intermediaries in a supply chain or ‘cutting out the middleman’ to reduce transactional costs. Instead of going through the conventional distribution channels, which had some type of intermediate (brokers in this industry).	Industry	Radical
Online risk and compliance system	Development and implementation of an online risk and compliance system.	Public Offer	Incremental
Ownership subsidiary direct investment property	One fund had a $AUD two billion dollar property portfolio by investing in new building projects including office and retail developments and residential apartment projects.	Industry	Radical

Types of Innovation	Basic Characteristics	Fund Type	Radical or Incremental Innovation
Part-owner of outsourced administrative services for ASF	The broader Australian administrative industry is characterised by a number of outsourced (both small and large) arrangements offering a suite of administrative services. Superannuation administration is a critical function within this industry.	Industry	Incremental
Interactive educational program for its membership	e-learning to broader member education and financial literacy levels of investment markets and personal planning needs.	Industry and Public Offer	Incremental
Automated online rollover process	On-line superannuation rollover tool that allows members to roll over accounts from other superannuation funds into a fund simultaneously on-line.	Industry and Public Offer	Incremental
Clean technology investment products	Superannuation funds investing in young off shore start-up companies such as clean technology.	Industry	Radical
Renewable energy investment products	Investment in energy resources: gas, wind and solar.	Industry	Radical
Microfinance	Substantial investments in private debt and equity investments to support microfinance activities. Commonly referred to as 'impact investments'.	Industry	Radical
Sponsorship of a national sporting team (Melbourne Storm – Rugby)	An industry fund chose a high profile sporting team to sponsor. The CEO considered that their 'brand' plays a very important role in the financial services industry.	Industry	Radical
Carbon Friendly investment options	Designed to improve corporate behaviour of companies through the engagement on climate change issues.	Industry	Radical
Wind Farms	Infrastructure investment in wind farms. Infrastructure as an asset class has grown in appeal to ASFs due to the long term nature of the infrastructure returns plus the income that is derived from the projects.	Industry	Radical

Types of Innovation	Basic Characteristics	Fund Type	Radical or Incremental Innovation
Cost sharing collaborative schemes for taxation, legal and corporate governance	Funds gain potential benefits from collaborative strategies such as: reduction in transactional costs for the fund; and specialised investment knowledge.	Industry	Incremental
Joint venture for alternative housing	Joint venture investment with local property developed to develop affordable housing.	Industry	Incremental
Mobile Apps24	Smart phone applications that allow funds to send and members to request targeted individual information through the phone wherever they are25.	Industry	Incremental
Web calculator26 **for retirement superannuation income planning**	Online interactive advice calculators. Assists members with working out how much super members will need when they retire. The calculator allows you to test how your choices about fees and contributions may affect your retirement investment over the long term.	Industry and Public Offer	Incremental
Technological[27]	Interactive online tools for members.	Industry and Public Offer	Incremental

[24] Interviewees from Fund 17 (a public offer fund) reported that their fund had an IPhone application, and the mobile website application enabled its members to monitor their super via mobile devices. This application allowed the membership to access daily unit and pension prices, and their super balances and was noted that this was a useful application particularly where members were travelling. The CEO commented, “this is an exciting development – giving our members the opportunity to carry their super around with them”.
[25] The Managing Director, Mr Andrew Boal from Towers Watson in Australia noted that no longer will funds need to rely on members reading the information in their member statements, visiting their website or ringing their call centre.
[26] Fund 17’s CEO also noted that the fund introduced a website retirement calculator – the first in Australia developed to meet a shift in member approach to retirement. The CEO of this fund noted, “this is the first interactive online calculator of its kind in Australia”. The calculator provided answers to four different scenarios that factor a combination of employment income, salary sacrifice, superannuation guarantees contributions, income tax, tax on super and their impact on annual take home pay and increases/decrease to super balances.
[27] Technology remains a key differentiator for all players within this industry, with the landscape changing rapidly. The industry faces an opportunity to get their foundations correct and to create a new era of technological-driven, member-focused solutions in Australia’s world-leading retirement savings sector.

Types of Innovation	Basic Characteristics	Fund Type	Radical or Incremental Innovation
Financial Planning	Members and their families can access Affordable financial planning on most financial matters including; pre-retirement planning; transition to retirement; taxation strategies; wealth creation; establishing appropriate insurance cover; estate planning.	Industry, Government, Public Offer and Corporate	Incremental
Health insurance products	Underwritten by a third party insurer. Superannuation funds offer their members discounted rates on health insurance cover. This allows fund members to access health cover with no waiting periods for some types of health benefits and extras.	Industry, Government, Public Offer and Corporate	Incremental
Solar Power Project in Spain	International investment in an off-shore solar power project. Government offered guaranteed tariffs to investors.	Industry	Radical
Pension products – guaranteed protection against negative returns	A guaranteed income for an individual that will provide a steady income in retirement and a protection against negative returns in any asset class of the plan.	Industry	Radical
'help a mate' program **social innovation**	A valuable programme introduced into the building and construction industry to improve the health and wellbeing of the funds membership, which aims to decrease the suicide rate. The benefit to the fund is to save lives, have more members and reduce insurance claims.	Industry	Radical

Table 12 highlights that most innovation occurs within industry funds. For the purposes of discussion of this research, types of innovations are categorised as: investment innovations, product innovation, marketing innovations and collaborative innovations. During this section, there will be a more detailed examination on each of the different types of innovation within this industry.

Investment Innovation

The different types of investment innovations reported by participants which focussed primarily on green and sustainable investment options included:

a. Significant investment into wind farms (Fund 19).
b. Carbon friendly investment options (Fund 19).
c. Clean tech investments (Fund 14).
d. Renewable energy investments.
e. Solar power (Fund 19).

In relation to the introduction of green investment options, this has been categorised as radical innovation within the context of ASI. As an investment choice, interviewees from two different ASFs reported that this member choice option actually came at a significant financial cost to their members. This was mainly due to this product being in the embryonic stage of the developmental cycle, which involves considerably higher costs. With this investment option the Return on Investment (ROI) is lower than on other investment choices offered by the fund. When exploring why the board would introduce a costly option for members, such as a sustainable investment options (albeit innovative), it was reported by interviewees that there was a market demand for sustainable options. Ironically, it was highlighted that the take up of these new options rate was marginal.

With the introduction of different asset classes, such as green or sustainable investments options, direct investment into property, or infrastructure asset classes by superannuation funds - have all enabled different product portfolios to be developed and offered to its membership.

Fund 19's CEO considered that: "In relation to investment choices, I felt pressured into putting funds under management into property and not innovation as a reaction to the market." However CEO of Fund 16 recognised that: "Large public offer funds have to be innovative otherwise members can join other funds."

This research so far considers that the above examples demonstrate that innovation is occurring within the ASI. New product development will be discussed further in this chapter.

Types of innovations provided by the interviewees were also focused around marketing innovations within the ASI. Two excellent examples included branding and life stage marketing segmentation.

Product Innovation

"Our fund has been product focused because of the interpretation of members' choice…" (Manager, Fund 2).

New products introduced into the market included:

- Pension products – aged based default products (Fund 17).
- Protected pension (Fund 2).
- Micro finance (financial services, like banks offering small loans to locals in developing countries to support their business ideas) (Fund 14).
- Tax – taking up share buy backs (Fund 19).

To determine the occurrence of product innovation within an ASF, a series of questions on the topic of NPD were asked of each interviewee to try and gauge a sense of the overall NPD focus within the ASF (refer to Appendix 5).

Marketing innovations

"Innovation is valued … and encouraged during the induction process for all staff members of this fund" (CEO, Fund 18)

> *As a general rule, when looking at the needs of working class people you don't need innovative solutions to investment choices, all you need are "set and forget" simple solutions… yet in a number of the industry funds they are starting to develop complex products as they are looking at competing with retail funds… and industry funds have the belief that more complex products will help them compete.*
>
> (Marketing Manager of Fund 2)

a) Branding

Sponsorship of a high profile sporting team

The CIO of one large industry fund reported that this ASF was the first ASF to sponsor a high profile sporting team within the ASI. The CIO noted this was an isolated occurrence of a branding innovation within the ASI[28]. The CIO also noted how the APRA regulations of the 'sole purpose' test and the corporate governance framework had not had a negative impact on

[28] Subsequently, other ASFs brand through various mediums including: radio and TV advertising campaigns. A yacht mast in the Sydney to Hobart International Yacht race.

their fund's strategic decision to be innovative within the marketing arena. The CIO confirmed that it was a straightforward process to gain APRA approval to sponsor a high profile sporting team in relation to the 'sole purpose' test outlined in this thesis Introduction. It was reported by other participants representing ASFs[29] that in light of the "sole purpose' test imposed by regulation on their fund that it is extremely difficult to innovate for marketing and gain approval by APRA. It is noted that there is a differing of opinion among the interviewees on this point.

The CEO was reported in *The Australian* newspaper as saying there is a strong nexus between sports marketing and sponsorship and what his company does as a superannuation fund. For instance the CEO said: "When the Storm are playing, their games are beamed into pubs and clubs where our members are actually working. Given the youth demographics of our members, the average age is 29, our members are probably out enjoying themselves …and watching the teams …we're sponsoring. Sponsoring sporting teams makes perfect sense and gives us greater bang for our dollars" (Fund19).

b) Targeted marketing through a Life stage model

Two industry funds (Funds 2 and 19), representing ten per cent of the sample size, provided examples of any marketing innovations occurring within their fund that could be categorised as radical innovations by Chesborough (2003).

Fund 2 is highly innovative demonstrated by developing and implementation of a targeted marketing strategy for each market segment through a life stage segmentation model which targeted to that life stage demographic instead of an overall marketing strategy for all its fund members (n = > 700, 000 members). Fund 2 appeared to be the only fund that allocated significant resources to delivering an innovative approach to marketing to its membership by this type of marketing segmentation. The advantages of this life stage targeted marketing

[29] Funds 5, 14 and 15.

model approach includes higher retention rate of members, less operational costs for direct mail outs[30] to all members and new product offerings.

Fund 2 had transitioned from one generic annual report to its entire membership, which is standard practice within the ASI, to providing three different annual reports tailored to different market segments of its membership. In summary, Fund 2 was innovative by directly marketing to its members by lifecycle stages model, which the fund developed through detailed research of its membership. In addition, this fund had adopted marketing plans to address the different age demographics within their fund. Interviewees suggested that it addressed members needs better by their direct targeting of its members. [31]

Fund 2[32] has had a membership growth of 6.5 per cent, faster than the industry median over the past decade. Fund 2 has developed marketing initiatives focusing on protecting and increasing the value of existing members, maximum acquisition within core segments and selective acquisition of non-core members within this industry. One of Fund 2's marketing initiatives was innovative by the fund's approach to direct marketing to its membership by life stages segments developed through the fund's qualitative and quantities research to build the life-stage segmentation model. The main purpose of the segmentation model is to provide members information that is required by law to be communicated to the membership. Various targeted communications for the membership were planned for the next five year period.

For each life stage, marketing issues that need to be addressed by each individual ASF are as follows:

i. What products are required to meet member's needs?
ii. What services are required to meet members' needs?

[30] Direct mail out costs were over $ AUD1M
[31] This is very similar approach to that adopted by Capital One in the USA.
[32] Fund 2 is ranked within the top 15 per cent of all superannuation funds (Super Ratings) and has outperformed the industry on most measures.

iii. How can we optimise our channels to meet member's needs?
iv. How can we best communicate with our members?

Rather than expensive direct mail outs to all members (n = > 300,000 active members plus n = > 200,000 inactive members) bi-yearly, Fund 2 strategically allocated significant resources to develop a sophisticated marketing segmentation model for its membership by direct targeting of different segments. The segments developed by Fund 2, are based on two variables: Life Stage of the member and Employment type. Life Stage had been identified as the most significant driver of member/employee behaviour, with employment type being a secondary driver of behaviour. Segment attractiveness is judged according to the following criteria:

i. Total segment size.
ii. The fund's current share of the segment.
iii. Strategic fit with organisational capability.
iv. The fund's ability to achieve differential advantage.

The fund adopted seven life stage segments[33] and had adopted marketing plans to address the different life stage demographics within its membership. The second stage involved using the life stage model from the research findings and applying it to the fund's member database in order to generate predictions or estimates of the outcome. Stage three was to determine the size of each segment by assigning current members to groups based on characteristics, needs and segment profiles.

The Marketing Manager and Marketing Director reported that this initiative addressed members needs better through the direct marketing to its members.[34] In summary, this fund had developed and implemented a targeted strategy for each life stage market segment in its membership, instead of one generic marketing strategy for all members. Through this

[33] Due to confidentiality, the seven categories will not be named.
[34] This is very similar approach to that adopted by Capital One in the USA.

initiative the fund had gained valuable data in relation to its overall membership. Three main segments made up eighty-six (86 per cent) of the fund's member population.

Classification One had 24 per cent (24%, n = > 120,000, Total FUM$ $500,000,000) of the fund's membership and members in this classification have been there on average for three to four years. Classification Two had 46 per cent (46%, n = >230,000, Total FUM$ $4,750,050,900) of the funds membership. Classification Three had eight per cent (8%, n > 40,000) of the fund's membership. Classification Four had 16 per cent (16%, n = > 80,000, total FUM$ $3, 750, 156,100) of the fund's membership and members in this classification have been there the longest with an average of 12 years. Classification Seven had six per cent of the fund's membership and members in this classification have been there on average for four years to five years (Total FUM$ $905Million). Classification Five and Six had only one per cent each of the total fund's membership (FUM $ 130,000,400 and $ 182,400,860). The fund was aware that apart from classification six, the average account balance of active members is marginally higher than the account balance of inactive members for all the remaining life-stage segments. Fund 2's confidential strategic plan[35] reported that there would be a number of significant changes with emphasis on the development and implementation of rigorous new product and service improvement programs. The life stage segmentation model recognised that there were certain segments that their offerings were more suited to, and members within each of the target segments have different product and service needs as well as different channel and communication preferences, see Diagram 14 below. Surprisingly, given the amount of $FUM within the ASI it was surprising that the data suggested that Fund 2 was the only superannuation fund where there was an allocation of significant resources to delivering an innovative approach to marketing to its members within the superannuation industry.

[35] Not for distribution outside the Fund 2's Executive Team and Board.

Interviewees from 19 of the funds represented in this research acknowledged that they were not as commercially orientated with their marketing approach to its membership as they should be.

In summary, the life-stage segmentation model has given Fund 2 a competitive advantage strategically over all other ASFs within the ASI. This model was built by using both qualitative and quantitative research findings to group highly correlated member responses and preferences. These then define a set of unique, mutually exclusive member needs that occur within this Fund's industry. The Marketing Manager from Fund 2 noted:

> *…This makes a huge difference in how you communicate with each of those markets …Now we target different messages and allocate resources more efficiently to align with members' needs…This fund is innovative in segmentation of work and development of portfolio analysis.*

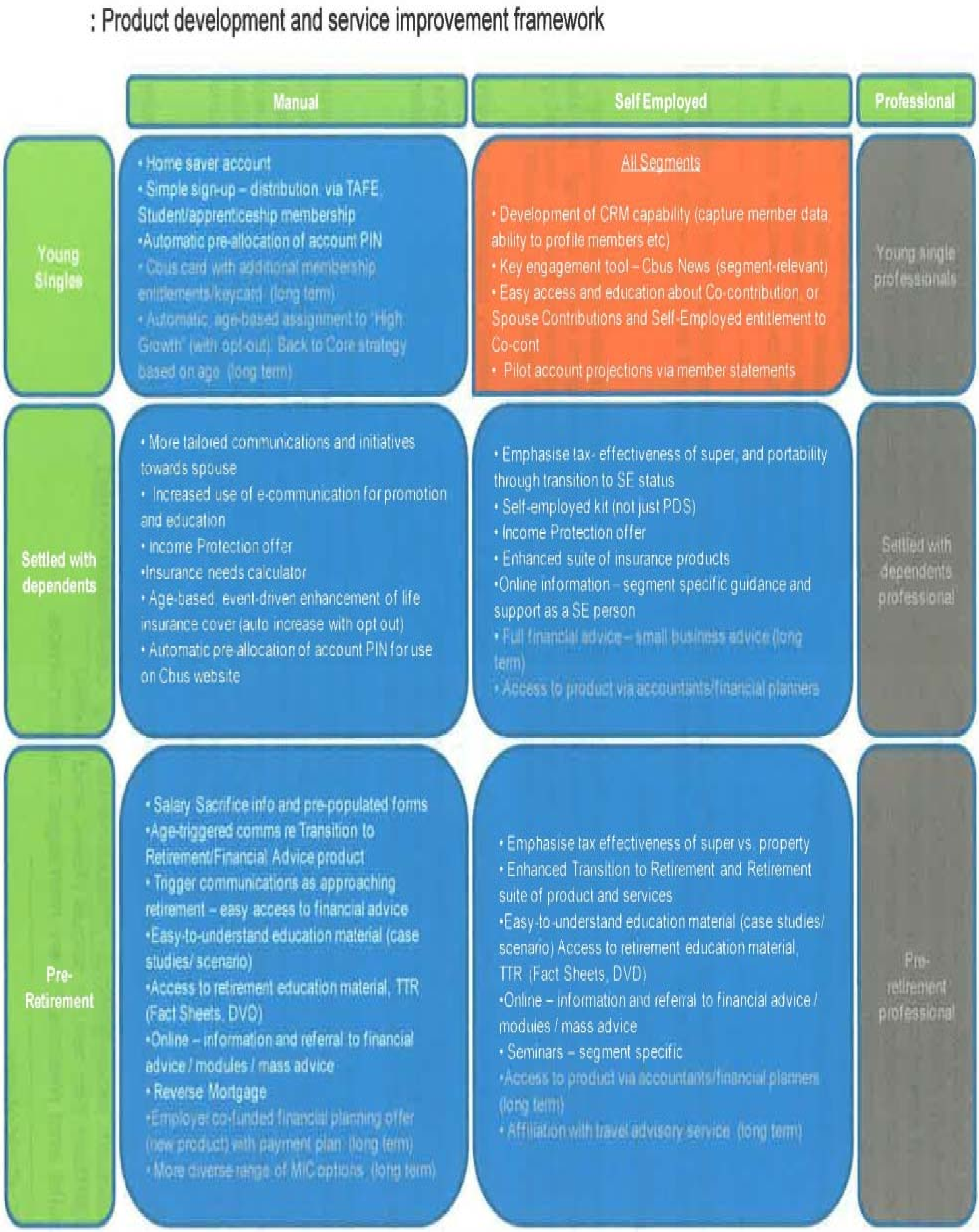


Diagram 14: Product Development and Service improvement Framework by Fund 2.

Collaborative innovations

The fourth main type of innovation identified by interviewees included different types of collaborative innovations:

i. Cost sharing structures for advice, such as tax, legal, corporate governance, (Fund 18).
ii. Part-owner in an administrative company (Fund 2) to service outsourced superannuation; fund requirements, and;
iii. Asset allocation alliances – Frontier advisors (Funds 1, 2, 8, 17).

A collaborative effort – Frontier advisors

In terms of industry funds working together an excellent example of collaborative innovation within this industry was the commencement of Frontier Advisors in 1999. This occurred via the establishment of an asset-consulting group, which is a highly regarded independent specialist asset-consulting firm within Industry Fund Services (IFS). In 1999, the IFS Board resolved to branch off its investment consulting business into a new and separate company, Frontiers Advisors. The company, at the time of writing this report, had four shareholders.

Fund 2's CEO[36] noted that within his fund: "Innovation has been created where resources have been pulled together and established." This CEO cited Frontier Advisors, as an example of collaborative innovation by the industry funds within the ASI. This is an example of 'radical innovation.' It is a highly successful business model that many other non-industry funds have subsequently used as a funds primary asset allocation consultant. The CEO of Fund 2 noted that Frontier Advisors was their asset allocation consultant for the fund and provided investment advice to the board, and continuous oversight of the fund's investments. The total funds under advice as of 31 March 2013 stood at $AUD144B.

[36] This fund is one of the four shareholders of Frontier Advisors.

Financial Planning

Interviews with participants from different Funds such as 17, 4, 2 and 19 suggested that, “financial planning for members had become industry practice and all industry funds were going to provide financial planning, if they were not already doing so”. While most superannuation funds at the time of this research were developing or implementing this service for its funds membership most participants were unaware that competing funds were also going to offer this service as a way of differentiating the fund in the current environment.

As mentioned earlier with product innovation, to determine the occurrence of product innovation within an ASF, a series of questions on the topic of NPD were asked of each interviewee to try and gauge a sense of the overall NPD focus within the ASF (refer to Appendix 5).

Interviewees from 16 funds, making up 80 per cent of the sample, reported that there was a focus on product development by their fund and interviewees from 50 per cent of these funds reported that there was a fairly strong focus on NPD or that NPD was considered important. Whereas, interviewees from two other funds, making up ten per cent of the sample group, reported that while there was a NPD emphasis, there was “a lot more their funds could do in relation to its NPD focus”.

The other interviewees, representing five ASFs, reported that there was no promotion of NPD and was it summed up succinctly by one interviewee who said their fund “did not really have a product development focus.”

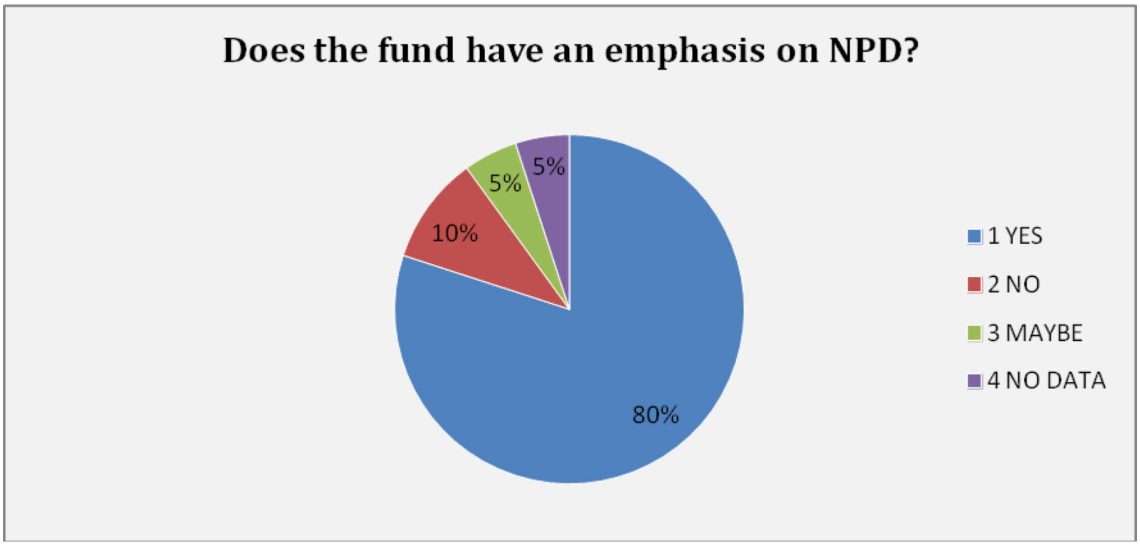


Diagram 15: Responses to the question – Does your superannuation fund have an emphasis on new product development?

While 80 per cent of the funds said they had an emphasis on NPD, see Diagram 15 above, interviewees were generally unable to provide any specific details on any of the innovation processes or the outcome, nor time and overall costs involved. One CEO noted: "There was no formal pipeline to promote NPD or any innovative idea within that culture …the process to date was random and ad hoc."

Surprisingly, only two funds only reported that they had any formalised innovative process (Funds 2 and 14). One interviewee from Fund 2 noted: "that there was a bias towards innovation …notwithstanding an innovation perspective, there is not a lot of impact."

The CIO of Fund 18 noted that:

> *Our fund used a star gate system for innovation and we focused our efforts in this process on passing through various gates…Stage one involves asking the question 'does it fit with sustainable products' … Stage two involves a risk*

> *assessment process …and if there is unmitigated risk then they will not continue with the process…Stage three involves a 'detailed scope'…*

When interviewees were questioned as to whether there was an organisational focus on product development, it was approximately 50 per cent. Fund 2 interviewees reported that while historically it was not, it is changing with the new CEO.

Fund 8 interviewees collectively noted that their CEO saw the importance for growth in products. CEO and Chairman of Fund 17 also note that competition made us more actively aware of the importance of innovation.

Trustees from Funds 1 and 5 believed that: "…the industry didn't have an innovation focus or NPD focus…rather a growth focus…" (Trustee, Fund 1), and, "lack commercial thought and if there was NPD, more a reaction to member choice and focus" (Trustee, Fund 5).

Sub-question 3: Is innovation measured within an ASF?

Measurement of NPD

"I'm not sure where blame would lay with innovation stuff ups…"

(CEO, Fund 11).

Participants were specifically questioned on whether their ASF measured the success of new products introduced to market by their fund. Data revealed that rarely did ASFs measure the impact or success of innovation and funds lacked any series of measurement metrics to measure the success of the new product or services within the ASI. Only two industry funds

(Funds 2 and 18) reported the use of any overall formal measurement system. Reasons given for not measuring NPD included:

i. NPD was a relatively new process to the business for which to date, no performance metric had been prescribed.
ii. No set targets for the fund in this area.
iii. Too complex to do so.
iv. Difficult to measure success.
v. Prefer to use a ‘take up rate’ of the new product as a measurement[37] tool instead.

During the interview process it became obvious that the use of measurement ratios outlined by this researcher [refer Appendix 11] was not common-place within the ASI. Only two ASFs were identified as using any formal measurement system for measuring the success of NPD for that particular fund. This is alarming given the amount of money, $AUD 1.5 Trillion dollars, under funds management in Australia. The majority of respondents had no formal mechanism to measure the impact of NPD. This is despite the fact the sample indicated that 75 per cent had some measurement system for innovation in general within their fund.

One key commercial metric is used in measuring the NPD success rate for organisations: What proportion of projects entering the development stage became commercially successful? This was asked during the interview process. Interviewees stressed that they did not measure the success rate of the NPD or service, as it was too difficult to measure.

In summary, Funds 8 and 14 were the only ASFs from the sample group of 20 funds that used a formal gateway system to measure innovation within their fund. Interviewees representing 80 per cent of the funds reported examples of innovation, yet there was a lack of formal measurement used by the marketing department or any other business units in their entity to

[37] Seven funds relied on this sole method of measurement for measuring NPD success.

monitor new products. CEOs from Funds 4, 9, 10, 11, 12 said no measuring of the success of NPD occurred within their fund.

Interviewees from Funds 1, 2, 3, 8, 14, 15, reported that they just measured the “take up rate” of a new product.

Most interviewees noted that their fund conducted some form of market research, and the more commercial orientated funds were conducting regular industry analysis to benchmark their fund’s performance against it. For example, a Trustee from Fund 1 said: “There was extensive market research done by this fund.” Similarly, the CEO from Fund 8 said: “Yes we do market research all the time.” Fund 14 interviewees said: “Market research was conducted on behalf of the fund by an external market research company.”

An interviewee from Fund 15 said they were, “keen to know what was going on in the industry.”

The Marketing Manager from Fund 2 said: “The fund looked at the best way to go market through market research; we looked at the differentiators as well in terms of competitive advantage…” Fund 2’s Investment Manager reported how active the fund was in terms of market research and said that they held “… a lot of focus groups. Series of focus groups set up for ‘protected pension’ to nut out product specifications… and satisfaction surveys are conducted annually.”

In conclusion, despite the fact that the majority of interviewees reported examples of innovation in the ASI and some form of market research, there was a lack of formal measurement procedures in place and only ten per cent of the funds had formal processes and systems to bring to market NPD or innovative ideas.

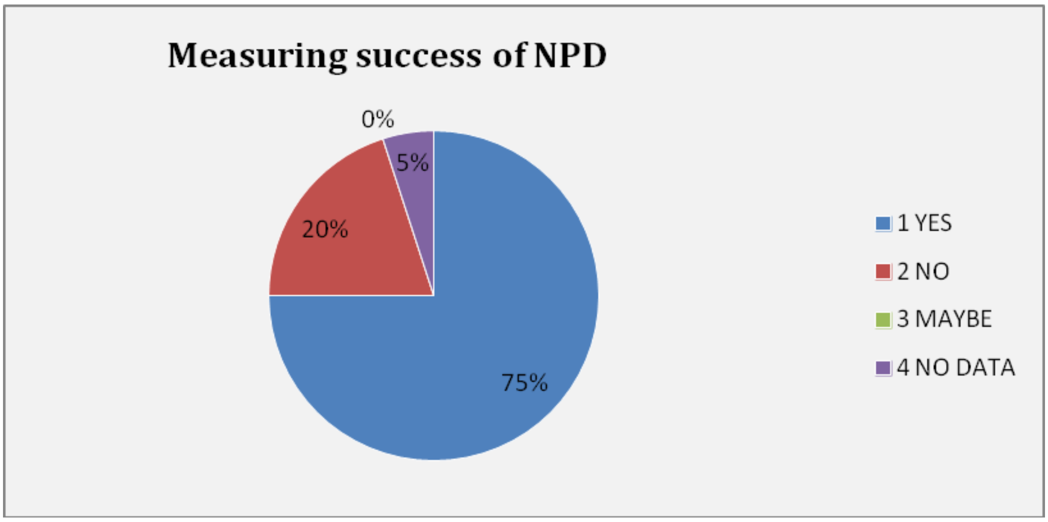


Diagram 16: Interviewees responses to the question – Does your superannuation fund measure the success of new product development (NPD)?

In summary, interviewees representing 15 funds reported measuring the success of a NPD within their fund. Yet there was no evidence of any formal measurement by the marketing department or another business unit of the success or failure of a new product to market by these ASFs, see Diagram 16 above, reported to the board. This suggests a very limited overall organisational focus toward measuring innovation.

Most interviewees conducted some form of market research and the more commercially orientated funds reported regular industry analysis to benchmark their fund's performance against any industry benchmark. Only ten per cent of the interviewees had formal processes and systems in place to bring to market NPD or innovative ideas.

Further, ASFs were also asked whether there was a chain of decisions in relation to NPD within their ASF. This included questions such as:

- Whether the first decision was to establish clear objectives for the new products?
- Whether this involved identifying the target market segment to determine their customers' needs ?, or:

- Whether the ASF divided the process into a series of stages, which created gates that control movement from one stage to the next.

Overall, the researcher was concerned with the general inability of the interviewees to be able to precisely quantify or articulate any type of formal measurement of the success of a product, outcomes, time-frames and overall costing's involved for their ASF.

For example, the CEO from Fund 9 confirmed that this large corporate fund had:

> *…no formal pipeline to promote NPD or any innovative idea within the culture of their fund and the process to date was random and adhoc. The culture within the ASF did not support innovation through any strategic leadership, vision of the board or any formal gateway system at an operational level.*

Fund 9's CEO reported that there was no formal process for identifying innovative or NPD ideas held by its staff members. The informal path taken, was that if a staff member had an idea for NPD or new services for this fund that "they would make an appointment to see me" (CEO, Fund 9) and the CFO agreed with the above statement.

Further there was no measuring of the success of NPD.

Sub-question 4: Are there any differences in the extent and type of innovation between the sectors in the ASI?

The differences in the types of innovation between the sectors in the ASI are reflected in the Table 13. The data revealed that the industry funds were more innovative than other sectors. Industry funds had a larger variety of different types of innovation ranging from incremental to 'radical' innovation with the sector. Industry funds were the 'first movers' within the industry with different types of innovation such as: branding innovation, collaborative arrangements (outsourcing of administrative services and investment advice). Public Offer funds also reported their innovative activities, particularly Fund 17 which was not dissimilar to the different types of innovation among industry funds.

Table 13: Differences in the types of innovation between the different sectors in the ASI.

Differences in innovation between ASF sectors.

Industry Funds

1	2	6	7
Insurance Products	Online risk and compliance Ownership subsidiary direct investment property Part owner of outsourced administrative services for ASF Protected pension (Guaranteed minimum income for life)	Interactive educational programs for its membership Insurance products	No recorded examples

8	10	11	12
First recorded merger of two ASFs Group life policy Disintermediation	Automated online rollover process	Automated online rollover process	Automated online rollover process

13	18	19	20
Legal pension products superannuation	Clean technology investment products Renewable energy investment products Microfinance (financial loans offered in third world countries)	Sponsorship of a national sporting team (Melbourne Storms) Carbon friendly investment options Cost sharing schemes for taxation, legal and corporate governance Wind farms	Joint venture for affordable housing

Public Sector

3	14
Financial Planning Health insurance products to be underwritten by third party in the future	No recorded examples

Public Offer

5	17	4
	Online risk and compliance	
No recorded examples	Financial planning	Financial planning
	Aged based default pension products	
	iPhone application	
	Mobile website	
	Website calculator	

Corporate

9
Financial Planning
Health insurance products

Funds are de-identified for confidentiality reasons and each fund is given a fund identifier number (1 – 20) that is outlined in Table 11 on page 137. This Table displays information using the fund identifiers.

The findings revealed that innovation occurred within three of the four sectors participating in this research. Innovation was minimal or non-existent within the public sector or corporate funds compared with other sectors. The extent of innovation occurring within industry funds is far reaching within the ASI and there are both 'incremental' and 'radical' innovations reported within this sector. 'Radical' innovations were seen only within the industry sector.

Public Offer funds also reported their innovative activities, particularly Fund 17 which was not dissimilar to the different types of innovation among industry funds. Seven interviewees from industry funds reported that collaborative ventures were innovative within the context of the ASI. For instance, by adopting market-based service agreements to govern the delivery of the administration of the fund (Funds 2 and 19) through outsourced administrative arrangements. These particular funds had established wholly-owned companies to deliver internal administration services for its fund membership and it was reported that trustees in some cases had become company directors responsible for overseeing this business arrangement.

The CEO from Fund 2 believes, "innovation is created within industry funds by pooling resources and creating collective vehicles like Frontier."

Sub-question 5: What factors inhibit innovation in an ASF?

"Innovation is difficult in this sector...and the fiduciary duty of a trustee runs counter to innovation."

(CEO, Fund 9)

This quote sums up the general sentiment of the majority of interviewee's perceptions of the broad topic of innovation within the ASI. There were many inhibitors of innovation identified by participants during the interview process. These inhibitors included, *inter alia,* corporate governance, regulations, cost, cultural and structural aspects, board decision-making processes, trustee skill sets and board composition.

This Chapter will now explore each one of the inhibitors cited.

Corporate Governance

"Corporate Governance – decision making servant of the board"

(Senior Manager, Fund 2)

Interviewees pointed out that they perceived corporate governance as an inhibitor of innovation. For example, "…one of the negative consequences of corporate governance were that it was an inhibitor of innovation." (Fund 1, CEO)

Interviewees from Fund 8 also reported that their fund's lack of innovation was partly due to the restrictions placed on them by corporate governance and regulations within the industry.

While the CIO of Fund 17 noted that corporate governance was generally an inhibitor of innovation within this industry, the CIO went on to say: "We (the management of the fund) are not fussed by regulation… We just get the approval of the Board and APRA, if necessary, and we are not stifled by corporate governance in any way."

Collectively 100 per cent reported that there was some type of negative impact from government regulation or corporate governance on innovation within their fund.

Regulations

"…it is the right environment to spawn innovation; otherwise you may be stifled by the regulatory environment."

(Fund 19, CIO)

Interviewees reported that there are also legislative limits on innovation within the ASI, due to the 'sole purpose' test imposed on trustees by the SIS legislation, which was outlined in Chapter 1.

Regulations imposed by federal law in Australia on the ASI were perceived by interviewees of several ASFs as possibly not being, "innovative due to restrictions placed on them by current ASI regulations… (CEO, Fund 8)" and that the "industry was too over regulated to support innovation" (Trustee, Fund 6).

The perception of the majority of interviewees was summed up succinctly by one trustee from Fund 6, who said that there "was a significant impact on the cost base for good governance due to government regulations … the trustee's general view was that the industry was too over regulated…"

Further, the Chairperson of Fund 6 reported that their board of this smaller ASF was constantly overwhelmed with regulatory compliance. The impact of the compliance regime was that the fund had an inability to focus on innovation due to the large amount of time and resources spent on the compliance with regulations. Consequently, the chairperson reported that this board voted to merge their fund with AustralianSuper as being in the best interest of their fund's membership.

Costs

Interviewees raised cost as another major factor that could inhibit innovation. Within this industry one of the key issues affecting the extent of innovation is the cost factors involved. The prospective benefits from any investment into innovation by the funds were reported as vague, difficult to measure and had a general resistance among employees.

One Chairperson[38] noted on the issue of cost, that their ASF was too small to be efficient and adhering to regulatory responsibilities came at such a cost to their fund that the board

[38] Fund 15

resolved to merge their fund with Fund 8. This Chairperson noted that they were unable to offer any innovative products or services due to the day-to-day cost of governing a small fund.

Another view offered by the Marketing Manager of Fund 2 was: "The mandate is that industry funds have low costs, which automatically mean less innovation as it would cost money to develop innovative solutions and money to service innovative solutions…"

Cultural inhibitors of NPD

The question: *Are there any structural or cultural inhibitors or promoters of a product development pipeline?* posed difficulties for the participants and approximately 25 per cent of the interviewees had difficulty understanding the question. Upon reflection it was probably in part due to the fact that the interviewees were not provided a clear definition of what "cultural inhibitors" were. In the context of this research, cultural inhibitors are barriers in the organisation's culture that may arise from ineffective leadership and vision and lack of value alignment in innovation.

Interviewees representing six ASFs stated that the cultural aspect of their fund had a neutral effect on whether or not innovation occurred. Several themes that surfaced during this section of the interview process included; tensions at board level, CEO's leadership, risk averse nature of the board, and size.

Some examples were provided on each theme. The CEO of Fund 14 was able to provide an excellent example of how the cultural tension between treasury and non-treasury trustee representation on their board made it, "extremely difficult to arrive at any constructive decision for the fund, let alone making any decision in relation to innovation". This tension between the trustees was a major cultural inhibitor of product development and innovation within the fund.

The next theme raised was that of CEO leadership.

Fund 9's CEO stated that: "The decisions made by the board would err on the side of conservatism with the funds product offerings to its members."

The CEO noted that he strategically limited the fund's investment choices on offer to its membership due to the overall risk averse culture of the entity. The CEO and CFO both reported that the overall risk averse culture of the funds acted as a 'natural inhibitor of innovation (Fund 9).   The CEO also added that;

> *Culture comes down to whether they see it as business or service. Where you stand on that spectrum determines level of innovation… innovation in this industry is about member services and using your size to deliver service to members.*

The Marketing Manager from Fund 2 noted that culturally within industry funds that they, "are a closed shop. Recycle people, have no best practice, No MBAs…"

Forty-five per cent of respondents stated that culture was an inhibitor to innovation.

Structural Inhibitors of NPD

Structural inhibitors are organisational factors such as business unit structure and integration, capabilities and systems that hinder the diffusion of innovation in the organisation.

Interviewees from four ASFs reported that they have a greater hurdle to implement a culture of innovation, due to structural issues caused by the sheer size of their fund. Notwithstanding this, interviewees from another larger ASF reported the size as having a neutral effect on innovation.

What was interesting to note was that interviewees from Fund 2 commented that within the context of structural inhibitors, their organisation lacked innovation project management capabilities.

In terms of overall challenges faced by all funds, in particular larger funds, included the difficulty of getting to market quickly with new products. For example, in the GFC there was a sudden shift in member's desire or need to change investment choices, including a 'flood of members'[39] wanting to convert their asset allocations from shares to cash options to minimise the loss. Unfortunately, interviewees from Funds 9, 11, 12 and 13 noted that the cash option sought by its membership could not be delivered to the market in time and there was an exit of members from these funds that could not offer this option. This issue was discussed with Mr Barr at the Australian Institute of Superannuation Trustees, who noted that he was aware of this trend during the GFC and was deliberating on whether or not to research the area of 'member exits' during this period.

Interviewees from the majority of funds expressed that in the context of the GFC, it was a priority to offer this option to its members, particularly where it had not been previously

[39] Andrew Barr, ASIT

offered as a distinct category for its membership. Interviewees from ASFs raised that member numbers would decrease as members switched to other funds, through a rollover mechanism allowable under legislation and superannuation fund policy, which offered cash options to their members. It was a belief shared at the time by members of funds in Australia[40] that it this was a safer option at the time.

Interviewees from two ASFs viewed the size of their ASF as a positive impact for its overall membership. For instance, one CEO stated that they "used our size to deliver better service to its members." (Fund 9's CEO).

Another example, was provided by Fund 8 CEO, who remarked on the fact that:

> *…Our sheer size had attracted a large Investment bank, Goldman Sachs (located in the United States) which had gained market knowledge of the fact that this particular fund had an appetite for infrastructure assets, and directly approached the fund,* [41]*… this had dramatically cut costs as exorbitant fees had been paid to third parties who traditionally manage or brokerage deals within the industry.*

The CEO[42] in this instance believed that they had been 'highly innovative' as the management team for the fund had directly engaged in this complex deal with Goldman Sachs rather than sourcing through a third party, like Macquarie for example. At the time of interviewing, this researcher was unaware of any other examples of this disintermediation process occurring within the ASI. This example is categorised by the researcher as radical and extremely beneficial to its members in terms of the cost savings to the membership by lower transactional costs. Merton (2006) [43] also acknowledged that in a fully developed

[40] Mr Andrew Barr, AIST
[41] Which is not industry practice. General practice is to use a third party like Macquarie Bank as an intermediary.
[42] Fund 8
[43] As well as a leading CEO in the ASI.

financial funds system experience, a major trend of *disaggregation or "disintermediation"* of financial services was experienced.

Conversely, the CEO from Fund 2 acknowledged that; "… we miss out on direct investment because of size."

In conclusion, 30 per cent of participants acknowledged that structural inhibitors affected NPD.

The Board

"Lay boards lead to bad results."

(Marketing Director, Fund 2)

Interviewees from all funds raised one or more of the following concerns about their board from their own perspective including:

i. Particular elected members of the board push their own personal interests;
ii. The board is too comfortable with their decision making processes as trustees have spent a lot of time together creating 'groupthink' rather than active debate on issues;
iii. Equal representation boards (employer nominations versus employee representation) has created a dominant culture of 'them and us';
iv. Personal attributes have interfered with decision making processes with other trustees who had had a pre-existing relationship with them; or
v. Particular trustees have joined the board with their own agenda over and above the fund membership interests.

Board decision making processes

Data collected from this research suggests that board decision-making errs on the side of conservatism (in particular risk aversion with investment decisions) particularly given the 'sole purpose test' (Fund 9).

Interviewees from this fund reported that: "Essentially the industry is expected to be risk averse and there is a (perceived) expectation that our board on behalf of the fund membership should make conservative decisions." (CEO, Fund 9).

The impact for the membership of Fund 9 is that there are limited investment choices offered to its members. The risk adverse culture reported by the CIO of Fund 9, "naturally acts an inhibitor of innovation."

This view was shared by other interviewees and the data highlighted that this tendency by boards to be risk averse was common place within the public sector boards (Funds 3 and 14). Regulation within the industry in respect of asset allocation mandates and the decision-making of trustees cause a natural risk aversion toward investments within the ASI. While not tested, the researcher believes that the real risk aversion of investments is driven by the risk profile of the board rather than the fund managers or asset allocation consultants.

A good example of a poor board decision making processes which is 'poor' by an ASF board was when an interviewee from Fund 19 reported that in relation to the board's decision making process that, "if one board member was uncomfortable with the motion about to be resolved by the majority of the trustees, then the entire board 'would fold' on that particular decision."

It was observed by this particular trustee that this mechanism hindered good decision-making.

Trustee skill sets

Poor or limited trustee skill sets on an ASF board may act as a barrier to innovation, particularly where trustees do not understand the value of innovation.

The area of board skills and capabilities is an extremely important one and the researcher believes that it has not been given the attention that it deserves, given that there is over AUD $ 1.5 trillion dollars vested in the hands of these Australian superannuation trustees.

Interviews conducted with trustees and CEOs highlighted major gaps in their board's skill set and experience required to supervise these funds. Several trustees stated that they were not always confident in their fellow trustees abilities and skill sets. For example, CEO of Fund 4 said: "Our board needed more skills to manage the FUM as required by the SIS legislation."

This was a view also shared by another 10 per cent of the CEOs interviewed. It was also observed that the equal representation attracted different skill sets of individual members, depending on whether they were from an employee or employer nomination. This could be either an advantage or disadvantage to a board at any given time and three funds reported that the elected nominated members required significant development with their skill sets, in order to oversee that the fund was governed correctly. Another fund CEO interviewed reported that the skills set of the nominated employee representative for that fund were weak and that it had been identified at board level that professional development was required to address these concerns.[44] Twenty five per cent of the sample group (Funds 4, 5, 10, 11 and 12) when asked *Does the Board have a skill set that is adequately able to manage your superannuation fund?*, reported that there was a lack of relevant skills and experience to manage an ASF.

Four funds (15, 16, 18 and 20), representing 20 per cent of the sample group, reported that their board had an acceptable level of skills to manage their superannuation fund. Thirty five per cent of the sample size (Funds 2, 7, 8, 9, 10 and 17) reported that their skill sets at board level were strong. These perceptions are captured in Table 14 below.

TABLE 14: Perceptions of the Trustee's skill sets on an ASF Board

	FUND IDENTIFIER							
	Fund 4	Fund 5	Fund 10	Fund 11	Fund 12	Fund 2	Fund 7	Fund 8
Lack of relevant skill set	✓	✓	✓	✓	✓			
Acceptable skill set								
Strong skill set						✓	✓	✓

	Fund 9	Fund 17	Fund 19	Fund 3	Fund 15	Fund 16	Fund 18	Fund 20
Lack of relevant skill set								
Acceptable skill set					✓	✓	✓	✓
Strong skill set	✓	✓	✓	✓				

SUMMARY	TOTAL
Lack of relevant skill set	5
Acceptable skill set	4
Strong skill set	7

Table 14 highlights that 25 per cent of the sample group viewed their incumbent trustees as not having an acceptable level of skills to manage their fund. The fact that the majority of

[44] It was also acknowledged by the CEO of FSS-NSW in his role as Chair of the Education and Professional Accreditation Committee for ASFA that many trustees are concerned about the fiduciary responsibilities and have been found wanting for the following:

- Written investment policy statements;
- Implementation of fund implementation objectives; and
- Adequate monitoring of fund performance to assist with their responsibilities as trustees.

trustees on ASF boards are not recognised as professional trustees should be a major concern for APRA, in particular, where trustees were perceived to lack skills, experience and expertise to manage the fund.

Board size

There is no formal research that empirically examines the size of ASFs boards and its impact in Australia. This research however, found that interviewees from four ASFs stated that the size of the fund was a structural inhibitor of NPD, and also applied to one ASF board due to the large size of the board.

The CEO of Fund X (which I am unable to identify due to risking anonymity) reported the biggest merger in Australia's history of two superannuation funds involved their fund. This board merger, is categorised as a 'radical' innovation and it retained all board members from both boards to form a 'mega-board', and interviewees perceived this enormous board as a structural inhibitor of innovation. In reality, though the fund was innovative at many levels.

The main challenge faced by larger funds in relation to size concerned the difficulties of getting to market quickly with new development options.

Board composition

It was reported by interviewees from public sector boards that there was "a general lack of desire to innovate due to the current board composition." (Fund 15)

From the sample group of 20 funds there appears to be a dichotomy between representative boards versus commercial-orientated board, in terms of the board composition. This, according to one CEO of an industry fund meant “neither model is extremely good”[45].

Interviewees from several funds (Funds 2 and 4) perceived that with the current superannuation climate, industry fund larger boards appear commercially focused and departing from a not for profit mentality that has predominately existed within the ASI for at least twenty years.

It was reported by several interviewees that equal representation by both employers and employees in relation to board composition is not in in the best interests of the fund membership. One reason which may be offered for this is that often trustees nominated and appointed to the board may lack the requisite skill set for the board.

An interviewee from Fund 14 reported that due to a natural tension that exists between employer and employee representation on the board, that in some instances, this tension had acted as an inhibitor for progress and innovation. This was also reported by three other ASFs. Fund 14 reported that representation by Treasury at Board level is problematic because board members were less commercially minded, less innovative and hard to convince.

[45] (CEO, Fund 4).

Research question 2: Does board conduct hinder rather than promote innovation in the ASI?

To answer this broad research question, three sub questions were asked of all participants.

The first sub-question is:

Sub-question 6: To what extent are ASF boards influential in driving innovation?

This research explored the issue of whether trustees drove innovation strategically at board level. Interviewees were specifically questioned on whether the trustees of an ASF board collectively drove innovation at board level or whether any particular individual trustee influenced innovation.

Ninety five per cent of interviewees from ASFs indicated that the trustees did not drive innovation at board level. However, it is arguable that there would be occasions where trustees may individually or collectively drive innovation, albeit it may not be considered innovative at the time, but rather viewed or discussed in terms of an efficient way to do things. For example, the merger between two of the largest funds in Australia, would have been a complex strategic issue facing both boards at the time. The end merger in my mind is an excellent example of radical innovation within the ASI. Yet this was not raised as an example of a board of trustees initiative influencing or driving innovation. When this researcher asked participants "how independent is innovation to the board", the general feedback was that it was intertwined.

Interviewees from two ASFs were identified as having a board that rubber stamps NPD plans by the CEO at board level, rather than being actively involved in debating the topic. Whereas, interviewees from 11 funds identified that agenda items actively debated by the board included NPD. For example, both Fund 8's CEO and Marketing Director noted that the board was very active on the topic area of NPD. Funds 10, 11 and 12 reported that their board was very supportive of new product ideas or any innovative ideas in general if discussed at board level, albeit there was no specific agenda item for innovation.

There appeared to be many different approaches taken by the board in the promotion of innovation. For instance, interviewees from Fund 6 reported that innovative ideas raised at board level by trustees, were collective ideas rather than any one trustee driving innovation. Fund 2 noted that while their trustees did not drive innovation at board level, they were actually very supportive of innovative activities occurring within the fund. Funds 14, 17 and 18 reported that any innovative ideas within their ASF, were driven by management, rather than the trustees themselves. However, the Chairman of Fund 19 reported that their trustees were actively engaged with their promotion of innovation within their ASF.

Overall the board played a minor or non-existent role in influencing or driving innovation within their ASF. The data highlights that all the boards involved in this research did not actively seek to have the subject innovation on a regular basis for the board to consider. While in practice, innovation could be driven at board level, this rarely occurred. Agendas did not reflect any innovative activity, ideas or projects for these particular ASFs.

Sub-question 7: Are there any board factors that influence innovation?

There are many board factors that could influence innovation within an ASF. These include board-decision making processes, the size of the board and trustees skill sets. External factors such as costs and regulations were raised earlier. However, the interviewees suggested that in practice, none of these factors actually drove innovation. That said, it is important to consider which of the board factors that may influence innovation.

Board Group Dynamics

Interviewees from 80 per cent of ASFs responded slightly negative to the question: *What were the dynamics of the current board like within their ASF board?*

Interestingly, individual trustees, CEOs and Chairs of their particular fund perceived positively the performance of their board overall, despite any negative perceptions they may have had about the board dynamics. Further, many interviewees noted that they did not believe that the dynamics of the board had any influence or impact on whether the fund promoted innovation or not.

Table 15: Board Dynamic Themes

MAIN THEMES	Reported on by interviewees
Member relationships	Funds 7, 15, 18
Member elect mentality "them vs. us"	Funds 10, 11, 12
Members Personal interests	Funds 1, 14
Skill Sets	Funds 16, 4
Board Composition	Fund 10

Table 15 above highlights five main themes that the interviewees identified as important in relation to the board dynamics of their ASF. For example, Funds 1 and 14 reported that personal interests of some elected members drove some agenda items at the board-room table. Their agendas never specifically addressed any innovative ideas or projects.

Funds 10, 11 and 12 raised the tension with representative boards as another issue that was impacting on board dynamics. The interviewees for these funds viewed the tension as an attitude of one of 'them versus us' at the board-room table. For instance, employer versus employee representation was reported to have a negative impact on the group dynamics of these boards – including creating a lot of tension among the trustees. Interviewees from Fund 10 raised just how important the composition of the board was. They noted that there were challenges between an ambitious executive team and a conservative board, when it came to raising the topic of innovation for discussion.

Funds 7, 15 and 18 noted that pre-existing relationships between some trustees play a role in influencing the board dynamics. It was also reported that some board members were more risk averse than others, which created an environment where it was difficult to drive innovation.

When interviewees were asked: "*Does the board work well together?,* interviewees from 17 ASFs, representing 85 per cent of the sample, reported that their boards worked well together. Issues raised by interviewees on what could influence the board's ability to work well together, included large or small boards. Also familiarity with other trustees was raised as a factor that could influence decisions. It was cited that boards that were too large may cause it to become ineffective with their decision-making. Interviewees of three ASFs (Funds 3, 5 and 6) acknowledged that their board members did not work well together.

Sub-question 8: To what extent are CEOs influential in developing or initiating innovation?

This research found that a CEO of an ASF plays a critical role in mobilising the resources of decision making within an ASF. Eighty-five per cent of respondents rated the leadership of the CEO as a strong predictor of innovation in their fund. After a lengthy interview process, the interviews highlighted that the main driver of innovation within an ASF was the CEO. The CEOs leadership positively affected eight of the twenty CEOs of ASFs, in relation to the level of innovation occurring within the fund.

That the CEO was a strong advocate for innovation, was the general perception within these eight funds and their leadership style influenced whether or not their fund adopted innovative practices throughout their business. Of these eight funds, CEOs from seven funds (Funds 2, 8, 10, 11, 12, 14 and 17) reported that they personally embraced innovation as a value within their fund.

The CEO of Fund 17 reported that he openly promoted innovation throughout the entire organisation. Both CEOs from Funds 8 and 17 noted that they supported innovation, either by way of changing cultures and norms within the fund to support innovation at an operational or at a strategic level, or by way of boardroom discussions led by the CEOs with board members.

The Investment Manager for Fund 2 noted that innovation and investments were “driven by the CEO and the Executive team in its business plan which they will work with the board to develop.”

During the interview process, the effects of the GFC were being felt within the ASI, which led to conversations about the topic of innovation. Two CEOs[46] confirmed that they were not intending to influence any development of innovation now or into the future and had reported that their decision had been cemented by the impact of the GFC. It was noted by one CEO that: “Innovation would come at a considerable cost to this fund.”

Fund 9’s CEO rationale was that the element of risk and uncertainty of innovation may create value or a benefit to its fund members in the long term, but did not warrant any allocation of resources to innovation at that time. Furthermore, this CEO vocalised how he had to report to a very conservative board. This board placed little emphasis on NPD and innovation, nor was it embraced by the CEO’s leadership or in the future at a strategic or operational level. As a result of this fund CEO’s leadership style, only minimal product investment options were available to its members, compared with a fuller range of products offered by comparable industry funds. This CEO’s vision was that, “We were there to serve the members’ best interests and innovation did not centre in that.” At the time of being interviewed, Fund 9’s CEO, the CEO commented on their fund experiencing major financial losses which was having a major impact on both the CEO and board member’s stress levels. It was noteworthy, there was a higher than normal exit rate of individual members from the defined benefit fund at this time, due to retirement rates by baby boomers rather than the GFC. [47]

One of the key findings of this research was that it was the CEO of ASF who was primarily responsible for driving an innovation culture throughout the entity.

[46] Funds 19 and15
[47] Which was also contributing to this.

Summary of Research Results

In summary, the following findings are made on the basis of data and analysis of interviews conducted on the twenty ASFs that participated in this research:

1. The majority of superannuation funds innovate.
2. Strategic leadership by the CEO who embraces a culture of innovation, tends to be a key predicator of innovation within that ASF.
3. A large proportion of the ASFs did not have a formalised pipeline innovation process. The process was 'adhoc' or informal.
4. Measurement of the impact of innovation is rare within the ASI.
5. There were no formal innovation strategies identified by any fund.
6. Increasing competitiveness and member needs are important drivers of change within this particular service industry, which by default, drove innovation within the industry rather than any formal strategic innovation strategy.
7. Concerns were raised with the level of skills set and lack of experience of some of the elected board members on ASFs boards; and
8. Of the various factors analysed in this research, the CEO's leadership is a key influence on the outcomes of NPD and innovation. Other factors on innovation within the ASI, such as ownership of the fund, FUM, number of members, inhibitors, board dynamics and the role of the board including board decision making, board composition and trustee skill sets did not appear to be significant factors in the outcomes of NPD and innovation.

Conclusion

Results provided now form the basis for a discussion of superannuation, innovation and governance in the ASI.

CHAPTER 7: DISCUSSION

The overall findings

This chapter will interpret and discuss the results presented in the previous chapter. Three central themes emerged from the data collection. These themes that expand on the existing literature include: the importance of strategic leadership in the promotion of innovation within an ASF; trustee skills in the monitoring of an ASF's performance and a range of inhibitors of innovation within the ASI.

The critical theme emerging from this research is that the promotion of innovation within an ASF occurs with the strategic leadership by the CEO rather than the board of trustees. This finding is significant and contributes to academic literature on service industry innovation and corporate governance.

Another important finding is that the trustees of ASF boards did not appear to question the value of innovation in most instances. There are no formal innovation strategies within the ASI, no regular innovation items on the agenda or inclusion in strategic vision or planning. It is recommended that ASFs trustees consider strategically with the topic of innovation. ICPM (2012) recognised that research today is the fuel that will propel "pension sector innovation tomorrow."

At the time of this data collection there had been no other empirical studies conducted in Australia in the context of innovation within the ASI. This is still the situation in 2014, and therefore, this is the first study of its type in Australia in the context of innovation and governance in the ASI.

Research question 1: Is there innovation in the ASI? And if so, how does innovation manifest in this industry?

Sub-question 1: To what extent are Australian superannuation funds innovative?

A major research objective was to determine whether ASFs (as service organisations) innovate. In summary, the results highlight that innovation did occur within the ASI, despite a heavily regulated corporate governance framework in Australia. At first glance it would be a natural assumption for an outsider to the industry to assume that innovation may be stifled given the mandatory 'sole purpose test' that trustees in Australia are required to govern by. Yet, despite a heavily regulated industry, 75 per cent of ASFs involved in this research had reported innovative activity within their fund. Funds that reported lack of innovative activities were classified within the public sector category (refer Table 13).

However, findings in the UK by British researchers Clark and Urwin's (2009) found "only a few instances of fully fledged institutional innovation as opposed to adaption and adoption" within the UK pension industry. They noticed that the occurrence of innovation was partial rather than systematic in respect of any comprehensive changes to the inherited form and functions of pension funds, due to the limits on innovation by government regulation.

After it was established that innovation occurs in the majority of ASFs, another major research objective was then to identify what were the different types of innovation that occurred within an ASF.

Sub-question 2: What types of innovation occur within the ASI?

Contrary to the initial assumption based on an extensive literature review influenced by the work by Clark and Urwin (2008) that innovation was 'rare' within this industry. This claim is difficult to support in the context of the ASI, since interviewees highlighted that innovation was not a 'rare' occurrence within the ASI, and that overall industry funds have many different types of innovation occurring. Public and corporate sectors on the contrary had reported no or minimal levels of innovation occurring within their ASF. So it was interesting to discover that there were sector differences in terms of innovation within the ASI. The proportion of incremental innovation was approximately 50 per cent of the cited examples of the different types of innovation occurring within the ASI, which were categorised as either radical or incremental, for the purposes of this research. The contrast between industry and government (or public sector) funds can be accounted for by the extent of rivalry in the industry arena. Industry funds must compete for members and increased market share, while government funds have a guaranteed market of public servants, both at a state or federal level, who historically are in the fund as a default option.

Investment innovations within the ASI

Different types of investment innovations reported by interviewees of ASFs included a relatively new category of investment options called the *Green/sustainable investment option.* These investments include wind farms, carbon friendly investment options, clean tech investments and renewable energy investments, an example is Fund 19. These were driven by government policy favouring green technology and member influence. This indicates a degree of responsiveness to the market by industry funds, despite a strict regulatory environment.

Product innovations within the ASI

A number of industry participants outlined in the Results Chapter have turned their minds to the challenge of product innovation in the ASI. In the literature review, the Innovation Space

Model by Bessant and Davies (2005) was highlighted as a model that recognises that different types of innovation that can occur within an organisation; process, product, position and paradigm. With reference to the ASI, process innovations within an ASF context involved the creation of technological and interactive educational software programs that benefited the fund membership. Product innovation which was the main focus, occurs with a range of new products introduced into the ASI. It included; pension products (aged-based default products); protected pension, and; micro-financing (Fund 18). Also industry funds have introduced new asset allocation categories such as direct investment property or emerging markets. Product innovation in green funds is categorised as a radical innovation in the Results Chapter.

Paradigm innovation involves any change within the structure and strategy of the ASF and should be considered in any future research.

The broad theme of these developments has been to explore ways to better manage the key risks to which people are directly exposed in the account based superannuation framework, which is investment, longevity and inflation.

Some of the key product ideas being advanced by different industry participants in this area include:

- The conversion of retirement lump sums into lifetime or deferred annuities.
- The adaptation to the Australian market of 'guaranteed minimum benefit' under which investors retain access to their capital, but can still obtain a level of guarantee (either over a fixed period or for the remainder of their lives) that is underwritten by the offering entities and/or a third party reinsurer.
- The extension of 'lifecycle' investment options beyond a member's retirement date, in an effort to minimise exposure to investment risks through gradual changes in asset allocation of a retiree's portfolio as they age, through some form of built in 'glide path' or other mechanism.
- The development of 'collective pension schemes'. These schemes combine elements of both defined benefit and defined contribution structures, with the aim of providing stable and predictable retirement incomes for members without imposing open-ended liabilities on employers (Super Review, Final Report, 2012).

To encourage product innovation, the AFTS Review recommended (recommendation 21) that the government should remove the prescriptive rules in the Superannuation Industry (Supervision) Regulations 1994, which relates to income streams that restrict product innovation. In the context of the terms of reference of the Cooper Review (2010) , the report noted that post-retirement product innovation, while showing promising signs, is still at a relatively embryonic stage in Australia. At this stage, it appears unlikely that any one product type will produce a panacea for all of the risks and issues confronting Australian retirees, and the public pension system that supports them. Consequently, it might unduly distort the market and the scope for further innovation to recommend that any one product type be favoured by regulation to the exclusion of others. At the same time, it will be important for regulators to avoid becoming inhibitors to innovation through unnecessarily rigid rules.

Marketing Innovations

Overall the ASI lacks marketing innovations. Notwithstanding this, Funds 2 and 19, representing ten per cent of this sample size, were innovative with their fund's approach to marketing, and interviewees provided several excellent examples to support their observations. Firstly, the branding of an industry fund through the sponsorship of a high profile sporting team in the NRL is considered innovative for the industry. In this instance, the trustees gained approval from APRA with this branding opportunity.[48] Secondly, a collaborative TV advertising campaign launched by industry funds (to increase their market share) which successfully continues today is categorised as a radical innovation within this industry.

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[48] Fund 19

Thirdly, a life stage marketing segmentation model adopted by Fund 2's [49] marketing department is also categorised as a radical innovation within the ASI. This direct marketing initiative to its members by life stage segments developed through extensive research to develop this model is radical for the industry. The initial purpose of their model was to inform members by way of various targeted communication planned for a period of five years to reduce costs and increase a more efficient way to disseminate information to the membership. This strategically it gave Fund 2 a competitive advantage over other funds within the ASI.

The issue of successful targeted marketing was explored by Clemons & Thatcher (2008) in their article based on Capital One located in the USA, who had developed and implemented a very successful innovative approach to target marketing. It was based on customer profitability analysis which achieved outstanding performance as a leading credit card issuer within the financial services industry. The company developed an Information Based Strategy (IBS) that allowed them to "develop new and different strategies by exploiting fundamental differences between itself and its competitors in organizational structure, corporate culture and use of information" (2008: 180). Capital One was able to achieve a competitive advantage through the implementation of IBS. In a similar vein, the life stage segmentation model developed by Fund 2, with its departure from a traditional one-size-fits all approach to marketing within the ASI, is very similar in strategy to the IBS model. In both instances, successful market differentiation to its members provided a competitive advantage to both businesses. There were no other cited examples of ASFs with such sophisticated commercial marketing segmentation model like Fund 2.

The evidence from this research of Fund 2's approach to marketing segmentation is very similar to the findings by Clemons & Thatcher (2008), who acknowledged that the principal problem faced by banks in responding to opportunities in the market included their organisational structure, information infrastructure, organisation skill set and organisational

[49] Fund 2 is ranked within the top 15% of all superannuation funds in Australia (SuperRatings) and has outperformed the industry on most measures.

culture. Only Fund 2, as well as possibly Fund 8 and 17, within the ASI truly recognised the significant value of an information infrastructure for their ASF. Currently, within the ASI there is still mass customisation of the dissemination of information into the market place by ASFs to its overall membership by way of direct mail. All other interviewees reported general bulk mail-outs approximately twice a year to their membership, which highlighted major inefficiencies and additional costs within their Communication Strategy.[50]

The fact that Fund 2 was innovative in this marketing arena indicates that the scope exists for such action in the Australian context. Other funds have failed to take advantage of this. It is therefore possible to gain competitive advantage from marketing despite regulatory restrictions such as those that exist in superannuation. In summary, there were few marketing innovations within the sample group. However, the cited examples did provide insight into different types of marketing innovations.

Collaborative innovations

"Changes worth recognising as innovation should be … new to the organisation, be large enough and durable enough to appreciably affect the operations or character of the organisation"

H.M. Moore (Innovation in American Government, Challenges, Opportunities, and Dilemmas 1997).

There were four different examples of collaborative innovations cited by the interviewees in the Results Chapter including:

1. Part ownership in an administrative company[51] to provide outsourced administrative services to the ASF.
2. Asset Allocation alliances – Frontier Advisors[52].

[50] Note that several ASFS within the sample group did not have a Marketing or Communication Strategy.

[51] Fund 2

3. Cost sharing structures for advice (tax, legal, corporate governance), and[53];
4. Tax – taking up share buy backs.

A culture of collaboration by industry funds within the ASI is important and this drove several innovative collaborative projects within this sector. The motivation for collaboration within the industry funds is considered. Firstly, there is an overall ability to reduce expensive transactional costs with large scale processing of daily tasks required within these entities. Secondly, industry funds collectively pooled funds to access specialised investment knowledge that they do not have individually and thirdly, they have capabilities and resources to create entities, such as a specialist provider like Frontier Advisors.

This research found that the majority of ASFs offered ancillary services such as; financial planning, insurance, legal service, banking and payment services to its members in conjunction with member superannuation services. Fund 4 provides an excellent example of all of these ancillary services offered by one ASF in the below diagram 17. The communication processes for Fund 4 is highlighted in Appendix 12.

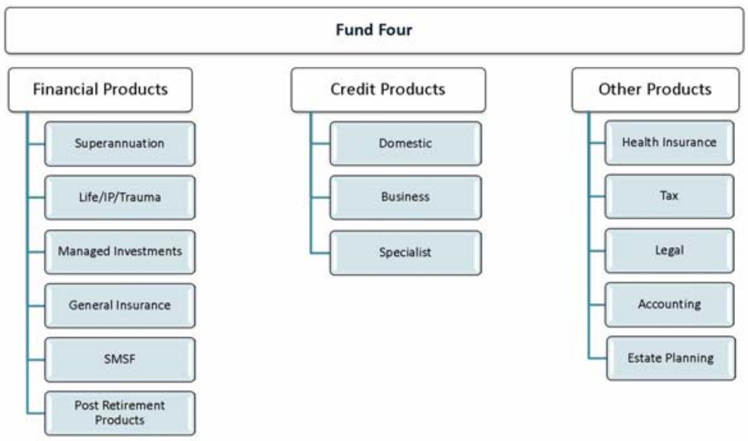

Diagram 17: Ancillary Services offered by Fund 4

Economies of scale may exist in marketing these ancillary products to its membership, albeit trustees are still required to consider the 'sole purpose' test for all products and services provided. Mechanisms to provide a competitive advantage to the fund in providing such ancillary services need to meet the objectives of the 'sole purpose' test discussed in Chapter One (p.35). These collaborative projects have commenced through a vehicle of Industry Super Holdings (ISH) (Refer to Appendix 13), see Diagram 18. Notably, Super Partners and

[52] Fund 2
[53] Fund 19

Frontier Investment Consulting were a spin off from IFS during the development of industry fund associations AIST and ACSI.

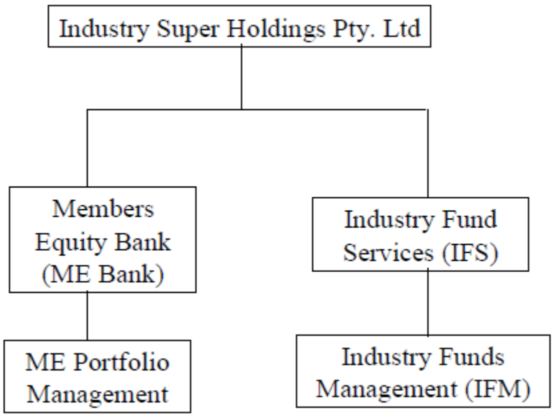

Diagram 18 Collaborative projects of Industry Super Holdings Pty Ltd.

DTI (2007) noted that a major driver of innovation in the UK is the trend towards outsourcing of business activities. The DTI project recognised that businesses may seek to reduce their costs by outsourcing non-core activities to specialist firms.

Similarly, APRA (2010) noted that Not-For-Profit (NFP) and retail funds in Australia both outsource most or all of the functions. Lui and Arnold (2010) report that the outsourcing by NFPs is driven by functionality or cost efficiency whereas outsourcing by retail funds is integral to the revenue model. The outsourcing of legal services follows the same pattern as both administrative services and asset allocation. Comparatively, APRA highlights that fewer retail fund trustees outsourced the function, while a majority of NFP trustees did so.

What is relevant to this research is the increasing separation in the delivery of superannuation funds administration and management in Australia. This research found a mix between funds that outsource their administrative functions versus funds that run their administrative tasks internally. However, an interesting discovery was the actual decision by one large superannuation fund to be a part owner of an administrative company that specialised in administration for superannuation funds. Within the ASI this trend has continued with the outsourcing of investments, administration and fund management.

Example 1 - Outsourcing

In the context of researching the topic of innovation within the global superannuation industry, research by Clark and Urwin (2009) within the UK Pension industry, observed that fund governance had one type of 'adoptive' response to changes in the environment. Primarily it used market-based contracts to govern the delivery of pension fund administration.

In these pension funds, companies were established to deliver internal administration services. The trustees had subsequently become company directors responsible for these administrative businesses. Respondents in the above example argued that these adopted responsibilities provided cost-effective delivery of services for the fund and was consistent with the interests of the fund beneficiaries. Comparatively in Australia, similar practices adopted by industry funds were cited as highly innovative by the interviewees and categorised as a radical innovation by this researcher. Interviewees considered it innovative to adopt market-based service agreements to govern the delivery of their administration (Funds 19 and 2).

The results derived from this research are of value to both theory and practice for a range of reasons. For instance, this research found that it was also becoming commonplace within the ASI to outsource the administrative arm of their ASF. Several ASFs had reported that they had outsourced their administration function, or acquired partial ownership of an external administrative service business to provide them this function.

Clark and Urwin's (2009) example of an adoptive response to administrative services in the UK pension system was categorised as an incremental innovation within the ASI.

Example 2 – Collaboration

This is an important example of how ASFs within the industry sector drove collaborative projects to create successful innovations within the industry. For example, resources were allocated by several stakeholders (four ASFs) to create an asset allocation consultancy business, Frontier, for industry funds (further details are provided in Chapter 2). This has proven to be a very successful business model and has been categorised as a 'radical' innovative service by this researcher. Consequently, it not only benefited the industry sector, however, all funds within the ASI who chose to use their services could do so on a pay for service basis.

Frontier is now a highly regarded independent specialist asset-consulting firm. Apart from the fact the initial innovation to establish an entire asset allocation-consulting business specialising in advice for industry funds, it has been a highly successful business model that many other non-industry funds have subsequently used. The CEO of Fund 2 said: "A good example of innovation was created where resources had been pulled together to establish an asset consultancy business for industry funds…"

Other collaborations amongst industry funds have seen the sharing of resources to create companies that provide administrative services within the ASI, asset allocation advice services, as well as other collaborative cost-sharing structures for tax advice and legal costs. These are excellent examples of different types of innovation that has occurred within the industry. All interviewees reported considerable cost savings from collaboration of the fund's operating budget as well as the overall membership costs.

Another type of innovation within the ASI was the initiative of collective investment vehicles for superannuation funds in Australia, which had an impact both at a social and economic level nationally. For instance, the Development Australia Fund (DAF), the Australian Chamber of Manufacturers and AMP provided an investment vehicle that focused on national infrastructure projects for superannuation funds. The initial funding contributions were sourced from four industry funds and AMP, who invested in the NSW Government's 'Rent-Buy Scheme, which provided affordable housing to lower income groups. In 1994, IFS was established and assumed an advisory role to DAF, with AMP as the investment manager. The role of IFS was to provide services for industry funds that were able to nonetheless accommodate the 'sole purpose test'. IFS took on the responsibility of managing DAF, as well as asset-consulting services and the development of private equity investment capabilities. Other services available for industry funds developed by IFS included a; retirement income products, credit control services, insurance broking services, legal services, financial services for the membership of any industry fund, and, the development of a high profile innovative marketing campaign. Another example cited by a trustee was an ASF that established a joint venture with another private organisation to construct and roll out affordable housing in Tasmania.

Two other different types of innovation within the industry sector included:

1. The establishment of Superpartners (which provides outsourced administrative services to twelve industry funds), and:
2. The establishment of the Members Equity Bank (MEB), which obtained a bank licence in 2001.

The above examples are categorised as radical innovation within the ASI. To create a banking entity within the industry, originally an initiative of both AXA and IFS, is very innovative from this researcher's perspective. Subsequently, ISF raised capital from industry funds to achieve a 100 per cent ownership of MEB. In addition, a subsidiary of MEB, Super Member investments provide services to another sector within the ASI -retail funds management.

Another major collaborative innovative venture was the establishment of the Industry Super Property Trust (ISPT,) a trust company originally owned by four industry funds and now owned by approximately 26 superannuation funds. The ISPT aims to identify real estate investments. Of interest, is that their property trusts comprise approximately 60 of industry funds' property investments.

These collaborations by industry funds have been a major influence in the evolution of the ASI that has ultimately had a positive impact, for both the membership and the industry as a whole. As legislative changes within this industry have created a complex environment for smaller funds to 'survive,' industry fund collaboration setting up these ancillary services provide smaller funds with the opportunity to achieve sustainable economies of scale.

This research considers the above examples to be an excellent illustration of the different types of innovation occurring within the ASI. Protected, or guaranteed, superannuation plans are a clever innovation within this industry and would be attractive to baby boomers, as this product provides for a guaranteed income stream for life. A result of not including this product to their investment choice is that members may use their entire lump sum payout earlier than forecasted and may have no other income stream available to them.

Sub-question 3: Measurement of innovation

One notable finding is that there was almost no measurement of the success rate of NPD, nor did any fund measure the impact of innovation. This indicates a lack of attention to measurement of strategies generally and the unfamiliarity of funds with idea of measurement-driven marketing. Arguably, the skill base of funds is deficient in this area and requires urgent attention. Accordingly, it would be hard to justify NPD in these entities because they would be unable to account for the impact and response of the market, and there are also no quantifiable numbers to defend the value of an innovation.

In summary, innovation in the ASI presents a challenge for the measurement of innovation. Tether (2005) highlighted how there are still conceptual gaps in our understanding of innovation processes within services and there are problems with measuring innovation in services. He points out that service innovations are difficult to capture with existing measurement tools because of their tacit and disembodied nature. Similarly, Christensen, Kaufman & Shih (2008:100), also acknowledge that it is difficult to accurately forecast any investment of innovation where, “the projected value of an innovation must be assessed by a range of scenarios”.

Sub-question 4: Are there any differences in the extent and type of innovation between the sectors in the ASI?

The differences in extent and type of innovation between sectors within the ASI

There were substantial differences in the types of innovation between the different sectors of the ASI. In particular, major differences were discovered between industry funds and public sector funds (refer Table 12 in the Results Chapter). Industry funds were in the main funds developing new products or services for the membership while the public sector had minimal or no levels of innovation occurring. The previous section provided examples of ‘radical’ innovation prevalent within the industry sector, such as wind-farms, sponsorship of a NRL sports team, or de-intermediary commercial transactions, compared to corporate and public sectors which only had financial planning, and insurance products cited as innovations.

The information in Table 12 on page 140 highlights the different types of innovation within all sectors of the industry. Ranging from higher levels of risky and uncertain ‘radical’ innovations, such as wind farms, are compared to ‘plain vanilla’ examples of innovation such as, the financial planning and health insurance used by the public sector and corporate funds. Innovation activities were minimal within these two sectors, compared with the evidence of high levels of innovation occurring within the industry funds[54].

Another theme that flowed from the data collection was the low levels of competition within the ASI sectors. Within other industries, competition between organisations is a common driver for innovation as they try to keep up pace with competitors. Yet, according to the interviewees working within the ASI, the industry lacked competition compared with other industries such as insurance, banking and IT.[55] However, analysis of interview transcripts identified that industry funds were definitely more competitive[56] than other sectors within the ASI. The data also suggests that there is an apparent lack of competition between all other sectors, such as public sector funds.[57]

One expert ranked innovation relatively low within the ASI for two main reasons. Firstly, “low levels of competition” were due to the lack of strong competitor pressure, and secondly,

[54] A direct transaction in relation to an asset allocation class with Goldman Sachs occurred for the first time within the industry, rather than sourcing through the normal intermediary in the industry (Macquarie Bank). At the time of interviewing there were no other examples of this disintermediation process having occurred within the ASI. This transaction is categorised as ‘radical’ innovative within the ASI and extremely beneficial to the funds membership in terms of the cost savings in this asset allocation class.
[55] Just compare branding campaigns for the major banks versus the major players within the ASI.
[56] You only need to look at any media campaign in Australia, it is only the industry funds that are marketing themselves.
[57] One industry expert from a leading Asset Allocation Consultancy firm confirmed these findings.

regulatory constraints which encouraged compliance by trustees of ASF boards rather than competition[58].

The same expert also suggested the degree of competition within the industry has been low and attention had been traditionally towards the execution of task rather than any desire to innovate. This highly regarded expert viewed innovation within the ASI as a desire to be more 'efficient' in terms of product or service offerings. For instance, doing the same job/task better or producing the same product with cost efficiency. This expert also highlighted that there is a strong "copycat mentality" within the ASI, by both senior managers and trustees. Innovation was viewed as externally driven rather than internally and financial innovations have ultimately occurred when fund managers try to solve portfolio optimisation problems and chase better returns for the ASF. This expert did not believe that financial innovations were driven by demand, reaction to the market or a fund capacity issue. In essence, focus within this industry is "on efficiency rather than innovation". An outcome of innovation has stemmed from driving efficiency[59].

Competition for industry funds came from major retail funds or financial planners suggesting SMSFs as an alternative to members, rather than other industry funds. Exit interviews with high balance members from industry funds showed that the majority of members who rolled out their funds to retail funds and DIY funds had visited a financial planner, as many of these members sought professional advice as they approached retirement. Results from this research support existing theory by Clark (2006) highlighting that there is a "blatant lack of competition" amongst different types of entities that deliver pensions in the UK plans. Low competition within the ASI historically has probably reduced the need for innovation. Notwithstanding this, industry funds within the ASI innovate. This could be partly explained by the fact that industry funds innovate because there is a gentile rivalry. This is a great

[58] MySuper recommended by the Cooper Review is an excellent example of this, promoting a non-innovative default option for members to be rolled out by ASFs in 2014.

[59] The UK example of the delivery of outsourced administrative services, offered by Clark (2006) argued that these adopted responsibilities are consistent with the cost-effective delivery of the services to the fund and the interests of plan beneficiaries. In Australia, similar practices occurred within the industry funds and it was cited as highly innovative by the interviews.

example of how rivalry enhances NPD among industry funds. As Porter (1990:118) points out, "domestic rivalry, like any rivalry, creates pressure on firms to improve and innovate." This is a key part of Porter's theory of Competitive Nations. However, government funds have been far more limited with embracing the whole notion of innovation. Porter (1990) views that the only way an organisation, like ASFs, can have an advantage is with innovation with a clear consistent strategic direction. Porter considers that there is a new paradigm of competitiveness in the market place, one based on innovation.

The importance of innovation activities is higher for industry funds than other sectors, such as the public sector. Industry funds showed the strongest focus towards innovation. These results were not expected as quoted by the CIO of one large industry fund (Fund 19) where he noted that, "you would expect all ASFs to innovate or not at all." Yet, the data highlights a polarized effect, from industry funds at one end of the spectrum to public sector at the other. It is clear that comparatively few ASFs are pursuing a strategy that is focused on active involvement in innovation. From a Baumol's perspective (2002), successful firms can be inefficient in the static neoclassical sense and still remain profitable, however, without innovation even the most efficient firms will be forced from the market by its innovating competitors. In the context of the superannuation industry, due to the new regulatory reforms, "ASFs will need to be actively competitive and innovate to survive or ASFs will have little of remaining viable or a going concern." (CEO, Fund 4).

Sub-question 5: Factors that inhibit innovation within the ASI

What factors inhibit ASFs from innovating? Firstly, the culture of the superannuation entity is one factor that impacts on the promotion of innovation within a fund. For instance one industry expert noted **"**…implicit is the view within the industry that innovation is bad, costly and not productive" (industry expert, 2009).

Numerous other inhibitors of innovation were categorised for ease as either external or internal inhibitors. External inhibitors include mainly regulations and cost. Internal inhibitors include; corporate governance frameworks, cultural or structural inhibitors, the board composition, trustee skill sets, decision-making processes, and, legitimacy of innovation.

The two most commonly cited examples of external inhibitors by interviewees include the costs associated with innovation and legislative requirements. The issue of costs and regulations are discussed below.

Costs

It is important to highlight that the key issue affecting what types of innovations occur within any fund or what the extent of innovation was the costs involved with any type of innovation. The fact that innovation occurred in 80 per cent of the researched ASFs without any formal business or strategic plan or by the development and implementation of a particular type of innovation, should be considered poor governance. The board should never sign off on any type resource allocation or expenditure without any forecasted gain to the fund. Given the costs of new product development, innovations may occur as product modification rather than product invention. Due to the lack of performance records for new products, and the rate of adoption, return on investment, production adaption is often preferred by trustees over incremental or radical innovation. Clarke's (2008) research found that instances of innovation were more likely to be partial, and this may have been due to the limits on innovation imposed by statute and government regulation, as well as trustees themselves often being resistant to innovation.[60]

[60] Clark's results are similar in its findings within the Australian context in terms of Australian statutory requirements for trustees. The "sole purpose test" was cited as a major hindrance to innovation within the ASF.

A common perception amongst the interviewees, and confirmed by an industry expert within the ASI, is that "innovation is costly". Comments made by interviewees during the course of this research, support Monk's and Merton's (2004) finding[61] that, "pension funds often seem unable to deal with the institutional cost of change." This was a view also shared by Clark and Urwin (2009). It was also reported by interviewees that the cost of innovation affects the extent of innovation within an ASF.

One of the difficulties in innovation is predicting the outcome in financial terms (Voss, C., Johnston, R, Silverstro, R., Fitzgerald, L, and Brignall, T. (1992). *cited in* DTI, 2007). It can be difficult to measure the impact of a particular improvement of a product or service for the ASF. The difficulty in predicting financial returns was recognised by these researchers as creating an unwillingness to invest in service innovation and a factor that inhibited innovation within the ASI.

Regulations

Legislation requires superannuation fund trustees in the ASI to satisfy a 'sole purpose test', however, there is no prohibition on funds having an equitable interest in suppliers of ancillary services, such as financial planning, insurance, or legal service, provided that the investment is considered justifiable by the trustees and approved by APRA as part of portfolio allocation on financial grounds.

Cultural and structural inhibitors of innovation

In addition, the issue of whether or not ASFs boards drove a culture of innovation at board level was explored. Culture is central to organising for innovation (Dougherty, 1996). Different cultural inhibitors emerged as inhibiting innovation within an ASF, including staff

[61] Which spanned over a period of over a decade from 1995 to 2008.

lacking skill sets to drive innovation processes, which was also acknowledged by a UK innovation survey in 2005. This survey found that a lack of qualified personnel was a mid-level factor for hampering innovation, leadership[62] and cultural tensions at board level. It was also identified also as a major cultural barrier to NPD. Cooper, Edgett and Kleinschmidt (2004:31) note that the, “climate and culture for innovation within the business proves to be one of the strongest drivers of NPD performance.” This is clearly not evident within the culture and climate of the public sector funds. The culture and climate within Funds (3 and 14) did not support an environment that fostered innovation through NPD. This is likely to be a product of a number of factors including leadership, historical and possible government ownership, who traditional exhibit risk averse behaviours. These negative cultural aspects inhibited the development of a marketing strategy in which the primary objectives were to develop new innovative products and services. As highlighted by Cooper *et al*. (2004) “…a supportive climate is a major difference of best and worst performers of NPD.”

Cultural tension was raised as a significant issue within the public sector funds amongst their boards that had equal representation, creating a “difficult environment to arrive at any constructive decisions for the fund, let alone making any decision in relation to innovation” (Legal Officer, Fund 13). Within the sample group there was a dichotomy between representative[63] boards versus commercial-orientated boards, in terms of their board composition. According to one CEO on an industry fund, “neither model is extremely good”[64]. The highly acclaimed Australian Cooper Review report (2010:54) states: *The equal representation model appears to impose rigidity into fund governance practices and reduce accountability, without contributing materially to the representation objective on which it was predicated.*

A structural factor that proved to be a hurdle for implementing a culture of innovation, for larger ASI industry funds, was the sheer size of the fund. One challenge frequently noted was the difficulty of getting to market quickly with new investment choices.

[62] Leadership has not been identified as a factor in the DTI (2007) report or any other academic literature to date as a cultural hindrance to innovation.
[63] Research by Clark and Urwin (2008a: 15) provided commentary on the representative board “we do not dispute the value of a representative board… But we do suggest that the criteria for board selection should be balanced against best practice”.
[64] (CEO, Fund 4).

To date, there is no published research that empirically examines the impact of the size of ASFs in Australia. At the other end of the scale, Clark's 2004 research, originating in the UK, identified that the small size of a fund is a real constraint on governance capacity and performance and observed that such resource-constrained entities should explore ways of sharing resources or merging into larger entities[65].

In relation to the topic of mergers of ASFs within the ASI, interviewees from two specific funds reported how it was necessary for their fund to merge with another ASF due to its small size fund and the complex legislative environment of the ASI.

For instance, the Chairman of a smaller a fund (Fund 15) in Australia, representing a smaller fund reported that the board voted strategically to merge with a larger ASF to create value for their fund membership and to maintain economies of scale.. At the other end of the spectrum, one CEO reported that their fund was involved in the biggest merger in Australia's history of two ASFs. This merger of two extremely large funds, the first of its type at the date of this research, is categorised as a 'radical' innovation within the ASI. The merged board retained all board members from both ASFs, to create a mega board and retained different asset allocation consultants from both ASFs.

[65] This research identified that the sharing of resources was common practice within industry funds sector in Australia. Participants from industry funds interviewed reported that there had been a history of sharing resources to create economies of scale or just reducing overall costs to the fund's membership. Industry funds reported examples of sharing asset allocating consulting costs by establishing an asset allocation based business (Frontier). Other examples mentioned in the Results Chapter, include sharing administrative services, or owning administrative services to service their fund, sharing costs on complex independent tax advice and legal costs. These are all excellent examples of the different levels of innovativeness within the industry funds within an Australian context.

All interviewees from public sector funds reported that the overall culture of their fund[66] was conservative, non-innovative and the risk profile of the board was risk averse towards innovative investments or ideas.

Legislative provisions set out in the SIS Act 1993, the board dynamics and the trustees skill sets, are three important variables that also contribute to the culture of the boards. Interviewees reported that typically their ASFs are bureaucratic in nature, hierarchical and slow to change. In addition, there still remains a 'not-for-profit' mentality within public sector funds.

Board composition

There was a general lack of interest by the board of ASFs to innovate within the public and corporate sectors of the ASI. The question that remains unanswered, is whether this is due to the board composition.

The theoretical implications for this research are that there is no best way to organise an ASF board. While this researcher would prefer a non-equal representation preference for board composition, there are both advantages and disadvantages for the equal representation model on boards. The disadvantages of equal representation is that it may create difficulties at board level due to the lack of appropriate skill sets by nominated members at board level, lack of experience of trustees and a lack of education with some members elected to these boards.

This research identified that trustees with limited skill sets on an ASF board may act as a barrier to innovation, particularly where trustees do not understand the value or strategic importance of innovation. Trustee skill sets for ASFs board membership is an extremely important area. This researcher's opinion is it has not been given the due attention it deserves,

[66] Where equal representation of board members occurred due to legislative requirements.

particularly as there is over $1.5 trillion dollars AUD collectively vested in the hands of these Australian trustees. It is of particular concern when employee representatives appointed to the board as trustees do not have sufficient knowledge or expertise to fulfil the role. Ambachtseer (2007) acknowledged that in relation to board member competence, the capacity to think strategically combined with a relevant skill set and experience is also important.

Research conducted by Sy, Inman, Esho and Sane (2008) reported that 90 per cent of their sample group of superannuation funds had no explicit requirements on trustees' educational qualifications. Similarly, the UK Myners Report suggested that pension fund trustees lacked the expertise necessary to make independent judgment in the face of influence of consultants and the financial services industry (HM Treasury, 2001).

The literature suggests that trustees should have expertise. Evans, Orszag and Piggott (2008:10) state that: "Implied by discretion is a supposition that trustees have considerable expertise, whereas the reality is a world characterized at best by trustee competence and at worst by amateurish confusion."

Other academics such as Clark and Urwin (2009:4) identified that the expertise of most trustees on pension funds in the UK "… does not stretch to deep domain-specific knowledge of investment issues" and the ideals of collegial decision making and responsibility is rarely realised given the co-existence of very different levels of trustee knowledge and understanding (Clark *et al.* 2007).

Another major theme from the data was that trustees are not always confident in their fellow trustees' capabilities and skill sets. For instance, one CEO of an industry fund (CEO, Fund 4) highlighted that, "our board needed better skills" to manage the FUM as required by the SIS legislation. This view was also shared by other CEOs interviewed. It was also observed that the equal representation attracted different skill sets of individual members depending on whether the trustees were nominated from an employee or employer nomination. This could be either an advantage or disadvantage to a board at any given time dependent on the appointment of a nominated member's skill set, qualifications, experience, capabilities and knowledge of the ASI. Participants from 15 percent of the sample reported that the elected members required significant development with their skill sets. Similarly, one ASF CEO reported that the skills set of the nominated employee representative for their fund were weak and that it had been identified at board level that professional development was required to address these concerns.[67] Twenty five per cent perceived trustees on ASFs to lack the relevant skills sets to manage the fund with their current skill sets.

Further evidence of trustees lacking proper skills to oversee an ASF was reported on in a survey (n=30) conducted by Clark and Urwin (2008:2**)**, where respondents were quite doubtful of their colleagues' competency at board level. Twenty five per cent of the respondents indicated that their colleagues did not have the appropriate training and experience. Further, "…trustees are either irrational or uneducated, or both" (Clark, 2000:153*)*. Whereas 40 per cent of respondents reported that their colleagues had, "for the most part", sufficient skills. This is also not particularly encouraging especially where only ten per cent of respondents were of the opinion that their colleagues had sufficient training while only 25 per cent were definitely of the opinion that board members had sufficient experience (Clark & Urwin, 2008:12).

Clarke and Urwin (2008:12) reported, "board members do not entirely trust the judgement of their colleagues". In another article by Clarke and Urwin (2009:1), *Innovative Models of*

[67] It was acknowledged by the CEO of FSS-NSW in his role as Chair of the Education and Professional Accreditation Committee for ASFA that many trustees are concerned about the fiduciary responsibilities and have been seeking information and training for the following:

- Written investment policy statements;
- Implementation of fund implementation objectives; and
- Adequate monitoring of fund performance to assist with their responsibilities as trustees.

Pension Fund Governance in the Context of the Global Financial Crisis, it was reported, "most funds have felt constrained by the limits of their expertise." This sentiment was certainly raised by several CEOs interviewed for this research (Funds 14 and 4).

Table 16: Perceptions of skill sets amongst the Trustees of the Board

	FUND IDENTIFIER							
	Fund 4	Fund 5	Fund 10	Fund 11	Fund 12	Fund 2	Fund 7	Fund 8
Lack of relevant skill set	X	X	X	X	X			
Acceptable skill set								
Strong skill set						X	X	X
	Fund 9	Fund 17	Fund 19	Fund 3	Fund 15	Fund 16	Fund 18	Fund 20
Lack of relevant skill set								
Acceptable skill set					X	X	X	X
Strong skill set	X	X	X	X				
								TOTAL
Lack of relevant skill set								5
Acceptable skill set								4
Strong skill set								7

Table 16 above highlights that 25 per cent of the sample group interviewed for this research thought their trustee colleagues did not have relevant level of skills to monitor their fund. Similarly, Clarke's (2008) results identified also that 25 per cent of the respondents in the United Kingdom indicated they did not have the appropriate training and experience to manage their fund also. Comments made by three interviewees of this research mirror Ambachtsheer view (2007:13) reported in his book the *Pension Revolution: A Solution to the Pensions Crisis,* "that too many people continue to be appointed to pension governance positions not for the skills and experience they bring to the governance body, but for the interests they represent (e.g., the union or employer)".

Ambachtsheer's 2007 research, conducted in the United States, observed that it was not always professional boards that governed pension funds but sometimes lay people or amateur boards. Further international research revealed[68] that many trustees are not especially expert in investment. The majority of these trustees had no professional qualifications in finance or investment; had little initial training; did not attend training courses during their first twelve months of appointment; and spent very little time during the week preparing for fund investment decisions. The Myner Report (2001) acknowledged that if funds are to fulfil their obligations to beneficiaries and take an active role in the financial services industry commensurate with their significance in terms of total assets, then the governance of these funds must improve along with the knowledge and expertise of the trustees. This report also found that in the first 12 months of trusteeship only 26 per cent of trustees received more than one day's training.

The topic of board member skills warrants further research, as the findings highlight major gaps within ASF's board's skill set and experience, which was similar to findings by Ambachtsheer (2007). Capelle and Lum (2007) quite rightly point out that board expertise and knowledge affect board practices including strategic thinking. Drucker (1996) was also concerned that the US lacked well-governed boards and advocated for professional rather than amateur boards with relevant and composite skill and experience sets. Anthropologists O'Barr and Conley book *Fortune and Folly (1992)* described the governance of U.S. pension funds as generally ineffective. This view is shared today by Ambachtsheer (2007), who had two additional concerns. Firstly, that too many individuals are appointed to pension governance positions not for their skills or experience but for the interests they represent, such as union or employer, and the result is that too many boards still do not understand their role in the managing the pension fund.

Further, where an individual trustee has personality characteristics that detract from overall board performance it can often be difficult for the board to take action (Kiel *et al.* 2012).

[68] The Myner Report surveyed 250 trustees of superannuation funds in the United Kingdom

Governance theory rests on the assumption that board members have expertise. The report's data, and that from the UK and USA, all indicate that this assumption is flawed with respect to superannuation funds.

Trustee decision-making

The question as to why we should be interested in trustee decision-making was posed by Clark over a decade ago, resulting in his conclusion that very simply, trustee's control enormous financial resources and how these resources are allocated may have a significant impact for the local, national or global economy.

To gain insight into this issue, we need to understand the objectives of the trustees within the ASI. There has been a detailed explanation given in Chapter 1 on this issue. In summary, it involves two primary goals *inter alia,* firstly, to ensure that the investment performance of the fund is adequate to meet the current expected plan obligations and secondly, to maintain funding of expected liabilities set by the Australian Regulator.

A trustee makes decisions in the immediate context in which they find themselves in as a member of a board as well as the risk and uncertainty inherent in the financial markets (Anand, 1993). In relation to uncertainty it is difficult to forecast efficient investment strategies, and trustees, "do not have the luxury of sitting-out uncertainty; the opportunity costs of such a strategy can be extremely high" (Clark, 2000:138). Trustees of these ASFs generally make decisions regarding the fund's investment strategy in an arena of risk and uncertainty, with "limited capacity of trustees to make informed decisions about the available set of investment options" (Clark, 2000:142). As Clark (2004) points out that for many trustees they are aware of the consequences of trusting habits, yet are terrified that their decisions may be scrutinised by external agencies, in Australia such as APRA and ASFA, which is a sentiment shared by Australian trustee. Accordingly, to involve external service providers, who have established professional reputations in the decision making process, is viewed as a way of sharing risk and uncertainty.

The topic of decision-making within the context of superannuation funds is important. Research conducted globally by researchers such as Ambachtsheer, Boice and Ezra (1995) found that 98 per cent of the participants mentioned poor decision-making processes by pension fund executives. Further, Clark and Urwin (2008a) report that their exemplars in their study were conscious of the costs of decision making of a large board. Further, Sunstein, (2005) recognised that many board members (n>9) are inclined to fracture collegiality and add a degree of heterogeneity in board member competence that undercuts competent decision making (Clark et al. 2006). Clarke *et al.* (2007) also revealed that the consistency of UK trustee decision making in pensions, in relation to investment related problems, is correlated with formal education and training of individual trustees and that experience is not a robust predictor of individual decision-making competence.

Data from this research supports an Australian industry expert's view that "herd mentality exists with the board's decision making within the ASI." Respondents noted that the ASF boards were generally conservative and this 'herd mentality' can actually keep them employed in their senior roles longer as they do not have to take risks[69] as it was "safer to follow the herd" with their decision making than take a risk. Similarly, Shiller (2002) acknowledged that research on institutional decision making suggested that bounded rationality is a common feature of financial decision-making, due to an individual's inability to synthesise information or due to the status and reward systems that may tend to encourage herd behaviour. From the evidence above, this so called 'herd mentality' exists within the ASI and this may be due to many factors. Board members or senior management may not want to go against the status quo within the ASI and decision making by board members of ASFs appears naturally risk adverse. Furthermore, Clark and Urwin (2009) note that there is evidence that financial decision-making is greatly influenced by past commitments and

[69] As by taking a risk there is a perception that this result may have a negative influence on the fund and this could result in this employee losing their job.

current relationships. This research confirms that where there was history with board members it may create a 'think tank' mentality amongst the board membership.

In conclusion, five of the ten barriers of innovation identified by DTI (2007), including; organisational rigidity, regulations, costs of risk too high, lack of key staff and innovation not necessary, overlapped in this research, in the sense that regulations and costs were identified as barriers to innovation by the participants. Additional barriers within the ASI that this research found, but that were not identified by DTI (2007), included limited trustee skill sets, board composition, cultural and structural inhibitors.

Legitimacy and commitment

Legitimacy of innovation with was raised by interviewees. This research found that CEOs from seven ASFs were strongly committed to an innovation culture within their ASF and promoted and allocated resources to NPD within their fund and innovation was perceived as legitimate. DiMaggo and Powell (2003) noted that companies adopt 'innovations' to enhance their legitimacy. Dougherty (1996) also reported that individuals would need to feel committed to product innovation if viable new products are to be developed more than infrequently.

In summary, eight factors (costs, regulations, cultural and structural, board composition, trustee decision making, legitimacy and commitment) were raised as inhibitors to innovation within an ASF.

Research Question 2: Does board conduct hinder rather than promote innovation in ASI?

Sub-question 6 – To what extent are ASF boards influential in driving innovation?

This research investigated whether individual trustees or the board collectively initiated innovation, and whether the board considered this a strategic issue.

This research found that no board of trustees initiated a culture of innovation within their ASF. However, interviewees perceived that a number of ASFs board of trustees did support a culture of innovation. Seventy percent of interviewees from industry funds noted support for innovation at boardroom level. Conversely, interviewees from public sector or corporate funds reported no strategic leadership in the area of innovation.

Clark and Urwin's (2009) research was often referred throughout this thesis[70] due to the fact that their research into the UK pension industry occurred concurrently with this research. In part, there were similar findings. Firstly, trustees appeared resistance to innovation. Secondly, changing the mindset of trustees within the superannuation arena with respect to innovation will be challenging.

Deschamps notes (2012:2) "… that promoting innovation … should become a key duty of the board" and the role of the board is critical in shaping management's approach to innovation. Neither of these duties raised by Deschamps (2012) were evident within the ASI. This is an

[70] Research conducted by Clarke and Urwin (2009) in the UK in relation to pension fund governance during the GFC, suggests innovation has been rare and difficult to achieve. Research into the area of fund governance is limited, and at the time of this collection of data, there had been no formal empirical studies conducted in Australia on governance and service innovation. My research findings differed to Clarke and Urwin's research, that is, innovation did occur in seventy five per cent of the sample group rather than being 'rare'. In spite of this, some interviewees thought that innovation may not necessarily be in the best interests of their fund and one of the key issues affecting the nature and scope of innovation was the costs involved.

important finding, that innovation was typically not part of any strategic process of any ASF board.

Deschamps (2012) recognised that board members may shy away from innovation issues due to the considerable investment involved or the risk profile of the board. Board meetings are limited in number and the duration of the meeting and agenda tabled for consideration are inclined to be crowded with other issues, such as corporate governance.[71] It is an oxymoron that while innovation occurs within some sectors of the ASI, it is clearly not part of many boards' agenda for trustees. Deschamps (2012:3) noted "despite their general involvement in strategy, and barring any discussions on specific and critical new products or new technologies, boards often lack opportunities to discuss innovation strategy issues in detail, at least in a regular or structured way".

Sub-question 7: Are there any board factors that influence innovation?

Board factors that foster innovation

There are many board features that could foster innovation, such as board dynamics, the board's decision-making process, board composition, leadership, size, and the skill sets of trustees. However, the data suggests that none of these features individually or collectively contribute to the enhancement of a culture of innovation within the ASI. For example, board processes had no bearing on whether innovation occurred or not.

Data revealed that the ASF boards did not contribute to fostering innovation with their fund, albeit it did play a minor role in supporting an innovative culture within their ASF through the strategic leadership of the CEO. The data highlighted that boards do not have innovation as a specific agenda item. While there is an opportunity for innovation to be driven or influenced at the board level through agenda discussion items, this rarely occurred. Agendas

[71] Confirmed with data collection for this research.

did not reflect any innovative activity, ideas or projects for any particular ASF. There is no umbrella strategy that encourages innovations to emerge and develop (Mintzberg and McHugh, 1985). The inability to break out of prevailing patterns of decision-making (Starbuck and Milliken, 1988) at board level can restrict innovation. Results from the research support existing theory that, the power of process such as agenda setting, budgeting and decision-making, channels attention to established businesses, rather than innovation (Dougherty and Hardy, 1996).

It is recommended that it is imperative for public sector funds, like Fund 3, to improve the climate and culture for NPD and this may be achieved by adopting actionable items offered by Cooper *et. al* (2004), which include:

- Resource availability;
- Reward and recognition of idea generators and project team members;
- Training, leadership and coaching with a NPD process and 'how to plan a project';
- Supportive learning environment (Garvin, Edmondson & Gino, 2008);
- A culture of support and encouragement of NPD and product innovation;
- Team accountability; and
- A framework suited to managing ongoing and open innovation processes.

Innovation drives growth, profitability and sustainability and the management of innovation should be strategic (Cooper, *et al.* 1990). Similarly, Baumol (2002) notes that large firms use innovation as a prime competitive weapon. Yet if firms are discouraged from pursuing innovation, as it is costly, they can be made obsolete by rival innovation. The key to any ASF's future organisational success is its capabilities and capacity to innovate. In the public sectors case, for example, most managers at Fund 3 superficially understood the importance of innovation. However, Fund 3's lack of inherent 'innovation capabilities', lack of strong culture for NPD, poor leadership response and a structure that did not support a culture of innovation, were all significant drivers of the derailment and failure of their marketing strategy project.

Reasons for this, at a practical level, were multi-factorial including:

- Lack of understanding of the superannuation market and how to be successful within the context of the boarder Australian Superannuation and Financial Services Market;
- Lack of management skills and expertise;
- Complacency;
- No project team accountability;
- No marketing research conducted;
- Lack of a chain of decisions; and
- Implementation Plan for project not developed.

Sub-question 8: To what extent are CEOs influential in developing or initiating innovation?

CEOs influence in developing and initiating innovation

CEOs within the ASI have direct influence on innovation within an ASF. This research found that a CEO's leadership could play a critical role in mobilising the resources of decision-making for innovation within 57 percent of all industry funds. A CEO of a large industry fund noted: "An innovative climate is seen as one of the more important drivers of successful product development" (CEO, Fund 2).

O'Sullivan's (2000) model of corporate governance should therefore be modified to take into consideration the importance of strategic leadership to make this model relevant within the context of the superannuation industry. The findings in Chapter 6 highlight that the main driver of innovation within an ASF was the CEO, as it was clear from the qualitative data that leadership positively affected the extent of innovation occurring within an ASF. Where a CEO promoted innovation in an ASF through their leadership style within an ASF, this heavily influenced the adoption of an innovative culture within the ASF. Eleven CEO's were reported to have influenced innovation within their ASFs. Further, Clark and Urwin (2008) also consider leadership is an essential ingredient in institutional innovation.

The importance of strategic leadership cannot be under-estimated within the organisational context in relation to the fostering of innovation within the organisation. As Govingarajan and Trimble (2010:39) stated: “the leader of the innovation initiative must set the right tone – positive and collaborative”.

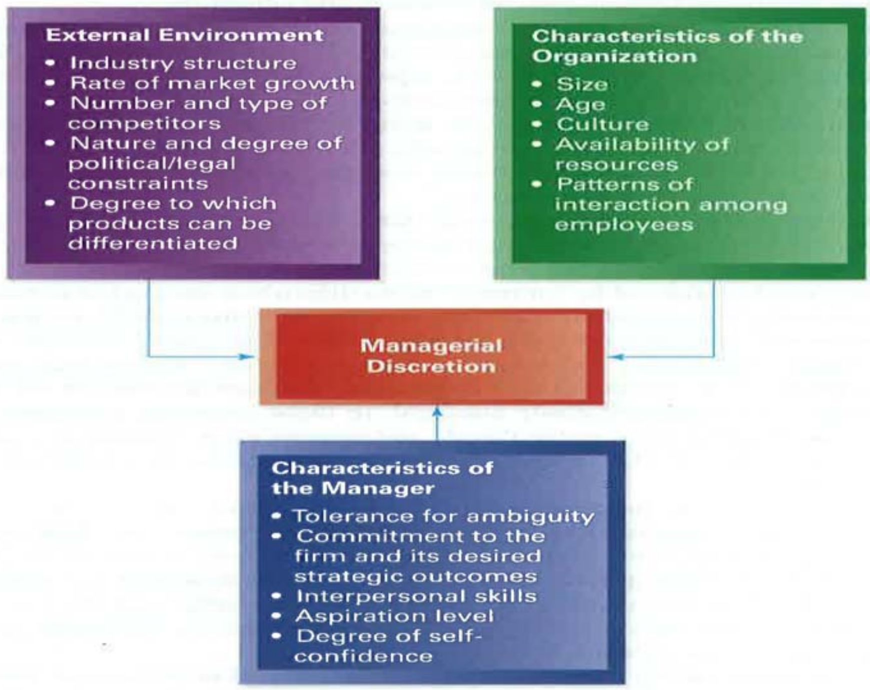

Diagram 19: Factors Affecting Managerial Discretion

Source: *Hitt, M. Ireland, R. and Hoskisson, R. (2011:355). Strategic Management: Competitiveness and Globalization. (9th ed.). South-Western. Cengage Learning. Mason, OH. USA.*

In relation to factors affecting managerial discretion, Diagram 19 above has been included to highlight that the, "quality of the strategic decisions made by a top management team affects the firm's ability to innovate and engage in effective strategic change" (Hitt *et al.* 2011:356).

In conclusion, one of the key findings of this research was that the CEO of an ASF was primarily responsible for driving an innovative culture throughout their organisation, rather than the board of trustees of an ASF. This provides insight for future research in the fields of innovation and corporate governance. Daly and Donaldson (1990) factor the importance of strategic leadership and the link with innovation. Within this strategic role, leaders play a critical role in addressing both the organizational and individual levels associated with innovation (Lyons *et. al.*, 2007).

Lester and Piore (2004) state that for a successful project of NPD or innovation in general there needs to be clear lines of accountability or responsibility for either the project manager or the project team. Cooper *et. al* (2004) argues that the majority of best performers reward their NPD project leaders and that there are rewards for project teams as well. In the case of public sector funds there was no strong leadership around NPD or innovation.

In addition to innovative ideas fostered and developed by the CEOs of industry funds, it is also worth noting that other mechanisms operate to foster innovation in some ASFs, such as the executive management team (EMT)[72] and committees (such as a marketing committee).

In relation to committees, it was reported by 16 interviewees, that committees were used as part of their governance structure within their fund and nine superannuation funds reported that the marketing, or the equivalent committee, was the main vehicle for management to discuss innovative ideas such as NPD.

Conservatism at board level inhibited innovation

Fund 9 interviewees reported that, "essentially the industry is expected to be risk averse and there is an (perceived) expectation that our board on behalf of the fund would make conservative decisions" (CEO).

[72] Innovation could be driven by an executive management team or individual members (normally senior managers) and supported by the CEO.

CEO of Fund 9 explained that due to the culture of the fund, he has to strategically limit the number of its investment choices on offer to its membership and the risk averse culture "naturally acts an inhibitor of innovation".

There was also a tendency by public sector boards to be risk averse with their decision-making processes. Legislative requirements, imposed by SIS such as the 'sole purpose test' set for trustees to comply with create a natural risk aversion within their investments strategies. This research data suggests that there was a spectrum of decision-making ranging from a risk averse board, as in the public sector, compared to industry boards signing off on innovative projects with a level of risk and uncertainty involved. These findings support existing theory that, where there is an inability to break out of prevailing patterns of decision-making … that this will be a major hindrance" (Starbuck and Milliken, 1988) and may limit any strategic discussion for innovation. *Evans et. al* (2008) suggests that a board's decision making practices should be flexible to accommodate the local innovations that go beyond common practice.

Only one ASF had a formal innovation strategy at the time of this research and 35 per cent included innovation in their corporate values. Characteristics of generic service innovation strategies should be considered as an instrument for ASFs to use with any future adoption of an innovation strategy for their fund (Moller, Rajala and Westerlund, 2008). It is worth noting that while an innovation strategy could enable an ASF to generate superior productive capabilities, it may also place that enterprise at a cost disadvantage, as such strategies often entail higher fixed costs than those incurred by rivals who do not pursue innovation (Lazonick and O'Sullivan, 2000).

Incremental service innovation highlighted in Table 8 on page 70 in Chapter 3 with product and service offerings, describes a value creation strategy in which services are employed for the incremental addition of value. The majority of industry funds could be viewed as pursuing incremental or radical innovation within their ASF. Industry funds had 14 examples of radical innovation compared to 12 examples of incremental. Industry funds were the only sector to cite examples of radical innovation. While radical service innovation describes an approach that pursues value creation through novel concepts which pose greater uncertainty for value potential and value capture. The developers of these service innovations aim to produce new offerings, technologies or business concepts as well as their commercialisation through advanced services. Funds 2, 18 and 19 at this stage could be categorised according to the above criteria outlined by Moller, Rajala and Westerlund (2008) as having an example of radical service innovations. With these four funds it was possible to wear a high level of uncertainty strategically, due to the age demographics of their fund, through a strategic long term vision adopted for innovation in investments.

In summary, despite the lack of any formalised innovation strategies reported within the ASI (except Fund 18), this research found that within the ASI there are two types of innovations that occur – incremental or radical service. Four ASFs (19, 8, 2, and 18) had both incremental and radical service innovation.

Innovation Processes within the ASI

It was clear from the data that 90 per cent of the funds had no formalised processes of strategic innovation and innovation strategies were noticeably absent within these (with one exception being Fund 18).

Significantly lacking within the ASFs were any formal project evaluation, with only ten per cent of the sample group reporting any evaluation in respect of innovation. Dated research by Kleinschidmt and Cooper (1990) found also that in many organisations project evaluations are weak and deficient, or non-existent. The data only revealed three ASFs with any formalised innovative process (Funds 2, 17, and 18).

Theory suggests that established organisations commence their innovation process by considering a broad range of possible innovations; they winnow out the less viable options, step by step, until only the most promising one remains (Christensen, Kaufman & Shih, 2011,)). However, these findings conflict with this investigation, as the majority of the ASFs did not commence an innovation process at all, let alone adopt a three or four stage approach offered by different innovation theorists covered in this study. These researchers note that the process in general includes three stages: feasibility, development and launch, which are not captured within the ASI. Despite that three ASFs had a formal innovation process, only one had a formalised star-gate innovation system.

Formal reporting mechanisms to the board were lacking in relation to innovation within the ASI. Reasons provided were: there was a lack of reporting to the board on such issues; that their board had not requested this information; it had not occurred to management to report on this; and a lack of skills sets and experience at both management and board level to develop and implement an internal formal system for innovation.

CONCLUSION

Governance still only receives sporadic attention in organisations active in the financial service arena (Ambachtsheer, 2007), despite its importance. As Seybolt (2006) remarks: "… we must embrace innovation or be left behind in our intensely competitive global economy… Innovation is a cornerstone to economic growth and prosperity" (Seybolt, 2006:67). The literature review highlighted that there is no adequate corporate governance theory that adequately embraces the notion of innovation. This perspective partially reflects the current situation within the ASI. This research has expanded it further by emphasising that innovation is occurring within the ASI as well as emphasising the importance of strategic leadership and its link with innovation within an ASF.

In addition, there is an expansion of strategy theory. Literature suggests that strategy sets the framework from which innovations should be developed. Sundho's (1997) research found that organisations use the strategy as a framework for procuring innovations. Whereas, this research found that ASFs did not develop or implement any innovation strategies. This raises an interesting future research problem, that is, if the majority of funds interviewees acknowledged that their board supported innovation- then why did the participants report that their ASF did not have an innovation strategy? The plausible answer is that innovation strategy is emergent and reliant on changes to CEO positions and, as with green technology, with changes in the market place.

The outcome of this research discovered inter alia that trustees within the ASI are often resistant to innovation and ASF boards do not consider innovation strategically nor do they question the value of innovation. Whereas, the majority of CEOs embrace innovation and in eight funds the CEO actively drove innovation throughout the fund. From an Australian perspective, innovation is certainly not 'rare' within the broad category of the ASI, despite placement in a heavily regulated industry and lower levels of competition compared to other industries reported by interviewees.

Another major finding is that the CEO promotes and embraces innovation within an ASF, and the board does not deal with innovation strategically. The trustees neither promote it collectively or individually and there was no reported case of a board having innovation as an agenda item or tabling an innovation strategy.

Formal controls within other sectors of the industry stifle innovation. Notwithstanding this, industry funds have embraced innovation and the situation for the majority of interviewees, from the retail, corporate, industry sectors within the ASI, was that any promotion of innovation within their fund was due to the CEO's leadership.

There are two key issues affecting what types of innovation occur within the ASI. Firstly, there is a cost factor involved with innovation and the prospects for the benefits to be realised of any investment into innovation for the fund were reported as vague, difficult to measure and faced a general resistance among employees. Smaller ASFs face a competitive disadvantage due to economies of scale and need to find alternatives to perform some of these functions to remain viable. Innovations within the ASI have been largely product driven instead of process driven, which provides one explanation as to why very few funds reported any formalised innovation process. Outsourcing of particular tasks to an independent entity (Chesborough, 2003) such as administrative services is one example of service innovation. Another example is collaboration with other superannuation entities to create a joint venture to create a specialist provider of a particular service, for instance, investment advice which is witnessed by the establishment of Frontier.

Secondly, there are also legislative limits on innovation within the ASI, due to the prescribed 'sole purpose' test imposed on trustees by the SIS legislation.

It has been well published within the literature that in most cases, innovation happens out of emergence due to the organisation facing some type of ambiguity. This is not the case within the ASI and it is evident that there is no effective system in place to guide employees through an innovation process. The innovation process should be a strategic task (Sudho, 1997) and this was not the case within the majority of the ASFs. Where ASFs reported any formal innovation process, only one fund confirmed that they used any staged approach as outlined in Sudho (1997) research, with the four-staged innovation process or the consideration of the uncertainty of returns from innovative investments (Schumpter, 1996; Lazonick and O'Sullivan (1996).

Many interviewees participating in this research had not considered the relevance or value of innovation within or to the industry, as a whole. Other interviews provided insight that management of innovation appears adhoc within the ASI. Throughout the investigation, information provided by participants confirmed that ASFs innovate often on an adhoc basis of a quick idea rather than any scientific result. As Sudho's research (1997) highlighted within the service industry it is more a 'search and learn' process. There was no evidence that ASFs had an innovation strategy or any formal innovation system linked with their corporate strategy, with one the exception of Fund 18. There appears to be no capacity or resources to execute ideas quickly within this industry. Chesborough's (2003:xix) view was, " … that while innovation is critical, the usual process of managing innovation doesn't seem to work", depicts the general sentiment within the ASI by interviewees.

Ambachtsheer's (2012:3) considers that, "the innovation track record of the pension sectors is not inspiring" and this is confirmed by Clark and Urwin's (2008) research acknowledging that incremental and radical innovation does not occur within the context of the UK pension system – where only institutional adaption occurs. Within the Australian context, we appear more progressive as 14 different examples of radical innovations were cited by the sample group within the context of their own funds. While the majority of the innovations are not necessarily breaking new ground, such as financial planning and insurance, it is important to re-emphasise that innovation did occur both incrementally and radically in nature within this industry, and specifically radical innovations occurred only within the industry funds.

Another major finding is the difference in the types of innovation between public sector and industry funds (refer Table 13 on page 163 for details).

The challenge in fostering innovation within the ASI is to embrace product and service development arrangements that are more appropriate to the current landscape of superannuation. The over-governing within the ASI may contribute to the lack of innovation in some sectors. This investigation does not advocate innovation within an ASF, yet it is recognised that it should be promoted as an important issue for ASF's in Australia to at least consider its value strategically at a board-room level.

I support the view offered by Govindarajan and Trimble (2005:47) that within today's competitive business environment to "remain viable, corporations must respond with innovation". Despite the fact that the current regulatory overhaul has been challenging for the industry, it has also had a side effect of drawing natural competitors together, as witnessed by the collaborative initiatives with industry funds. In addition, the industry is transforming from a vertically integrated environment to a more horizontal structure where numerous service providers have become linked in their interactions with other service providers and the fund they support. Accordingly, all parties in the super ecosystem, that is the superannuation fund, member administrators, asset allocation consultants, regulators and other government agencies, should be considering how new products and services will ultimately impact the funds membership.

Given the recent introduction of the superannuation reforms in 2013 and 2014, MySuper default accounts, a raft of new regulatory body reporting requirements from APRA, transparency, costs and efficiency are now at the forefront. ASFs have traditionally competed on the number of products, ancillary services and their ability to maintain strong investment returns. Competition in the ASI will be driven now by new disclosure standards and reporting regime that will allow members to compare and contrast among fund offerings.

In conclusion, innovation is a complex interaction between corporate governance, financial performance, leadership, competitive intensity, industry/market, and structure. Innovation is opaque, and is hard to measure in terms of impact on an ASF or the ASI. It takes bold thinkers to deviate resources on the basis of hope with no defence to answer if the process fails to yield results.

FUTURE RESEARCH

"Academics also have some way to go to develop their capabilities in pension fund governance. The academic literature on this topic is sparse…"

(Evans, Orszag and Piggott, 2008:3).

These explorative findings have the potential to improve the understanding of innovation within an ASF. The findings of this thesis have filled part of the black hole that was the unexplored tangle of issues centred on innovation and governance in the Australian superannuation industry. A range of incremental and major innovations were found as well as the factors that inhibited innovation. Also those that fostered innovation have been identified. In terms of governance this research identified the issue of CEOs initiating and directing innovation and the absence of a direct role being played by the boards in the industry.

This is a good start to a larger research program. The complexities of the relationship of CEOs and board with respect to innovation deserve further large-scale investigation since current governance theory does not explain this well. In addition, the mix of influences that affect the initiation and type of innovation needs further study. These influences: the CEO, the board, government regulation that inhibits but does not prevent innovation, and the raft of social issues, all create a complex web that must be unstitched if we are to advance innovation theory within this increasingly important industry. This is not only important for Australia but also other countries that have similar pension or retirement funds. Drilling down even further, this research reveals other interesting and important questions, such as:

- *What types of social issues influence innovation in superannuation?*
- *Does the education level or other background qualities of CEOs influence the extent and type of innovation?*
- *What expertise do trustees have, in a general sense and what qualifications should be mandated for a more active cohort of trustees?*
- *Is the industry subject to strong isomorphic pressures?*

- *Do similar industries in OECD countries with broadly similar patterns affect each other? If so, how?*

One limitation of this research relates to the country specific location of the research effort. It could usefully be expanded to include the UK and USA, as well as other OECD countries. Another limitation is the standard caveat that applies to qualitative research; it is not 'true' in the classic sense of the word. This is an account of plausible findings backed up by a specified research protocol and careful implementation of a research plan. A step closer to a more in-depth understanding will come with further refined topics of discussion and more specific questions. A series of full sample quantitative research projects would also help pin down some of the issues identified in this broad exploration of a hitherto under-researched area.

Research into the global superannuation industry is in the early stages relative to the corporate governance literature, and good governance is supposed to be an important prerequisite for efficient innovation activities (Schiller, 2009). As Gummerson (2000) states: "Science is a continuing search; it is a continuing generation of theories, models, concepts and categories. …a journey in which each program represents a stop on the way" (p.22). This study has broken the ground on which further research can build a better understanding of innovation and its links with governance in the superannuation industry, especially following the findings of this study – that CEOs have a strong role in innovation but boards do not.

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LIST OF APPENDICES

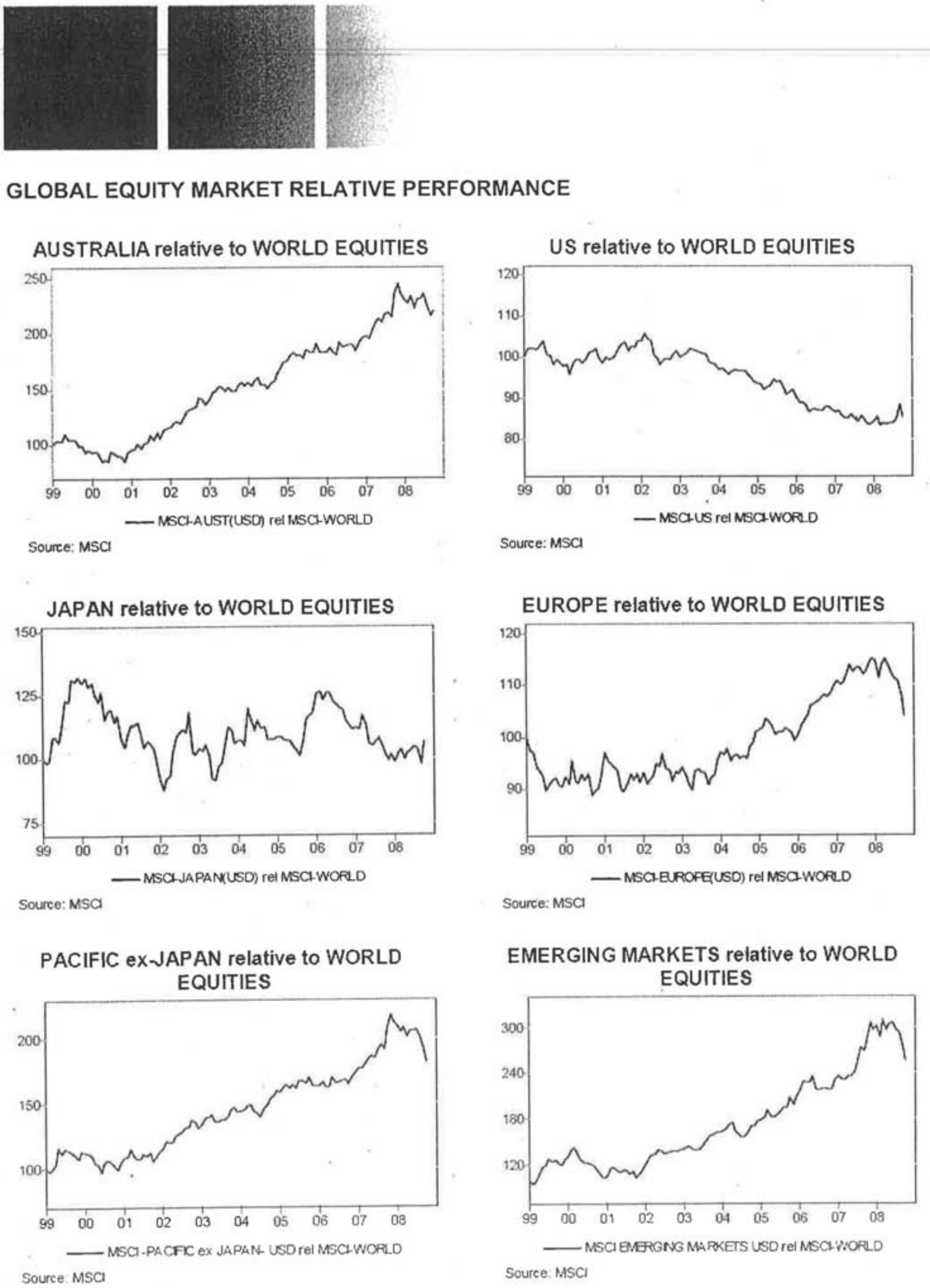
Appendix 1 - Elements to be implemented to ensure Compliance with the Future of Financial Reform Requirements

Elements	Key Statutory Requirements	Suggested Approach
Best Interests Duty	A statutory duty to act in the best interests of retail clients when giving personal advice. The general duty to be satisfied overall or through the safe harbour defence, which provides for all the specified elements to be demonstrated.	The Licensee, each participating Trustee or other entity and each Authorised Representative need to demonstrate that they act in best interest of clients either by satisfying the general duty or the safe harbour defence. The Licensee, each participating Trustee or other entity and each Authorised Representative need to: • act in the interests of the client, provide appropriate advice; • warn clients where advice is based upon incomplete or inaccurate information; • give priority to the interests of the client; • ensure scope of advice for personal fund advice or personal non-fund advice meets the best interests duty for every client; • to review financial Planning process to ensure best interest duty met; • to review advice delivery processes and disclosures including Statement of Advice Templates to provide for best interests duty to clients; and • to arrange appropriate training delivery for implementation of FOFA Reforms including meeting the best interests duty.

Elements	Key Statutory Requirements	Suggested Approach
Scaled Advice Delivery	All financial advice provided by the Licensee must be scaled advice. The FOFA Reforms enables single issue advice to be provided to clients. To develop a clear processes for provision of information, general advice and personal advice. The scoping of advice is to be provided to each client is to be undertaken by the Licensee and each participating Trustee and other entity and the Authorised Representatives. The charging regime is to align with the advice process of the Licensee and the participating Trustee or other entities.	The Licensee to obtain legal opinion on the authorisation structure and advice processes. The Licensee should develop a Plan to enable single-issue advice and combined single issue to be provided for personal fund advice delivery. The Licensee and each participating Trustee or other entity and the Authorised Representatives are to enter into Agreements to provide for general advice to be provided by AFSL of Trustee or other entity and personal advice by AFSL of the Licensee. Each participating Trustee or other entity is to put in place policies and procedures required for general advice delivery. And a process to ensure appropriate personal advice, which meets the 'best interest duty', is provided to every client. The Licensee in conjunction with each participating Trustee or other entity and the Authorised Representatives is developing policies and procedures for personal fund and non-fund advice delivery. Each participating Trustee or other entity is to review disclosures relating to advice delivery such as in Financial Services Guide.

Element	Key Statutory Requirements	Governance
Delivery and Charging Regime	Compliance required with Future of Financial Advice Reforms and Stronger Super Reforms.	Each participating Trustee or other entity to determine business model and allocate costs to administration fee, advice fee from member account or advice fee paid directly by client Each participating Trustee or other entity to review disclosures relating to charging such as in Financial Services Guide.
Conflicted Remuneration	Authorised Representatives by participating Trustees or other entities needs to meet all the conflicted remuneration requirements. The Stronger Super Reforms require the Trustee of a superannuation fund to ensure conflicted remuneration is not paid from a MySuper product.	The Licensee is to obtain a legal opinion on satisfaction of the conflicted remuneration requirements once the pricing model of the Licensee has been determined. Each participating Trustee or other entity is to identify any bonuses paid to Authorised Representatives which will need to comply with all requirements. The Licensee is to adopt a Conflicts Policy to address all requirements of conflicted remuneration. Each participating Trustee or other entity is to review policies and processes to ensure that the FOFA Reform and Stronger Super Reform requirements with respect to conflicted remuneration are met.

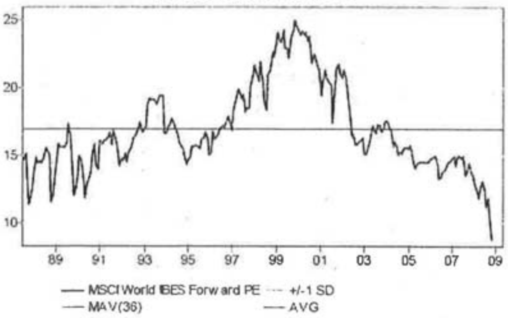
Appendix 2 – The Global Superannuation Industry in 2008



EQUITY MARKET VALUATION

Global P/E is well below historical average. Valuations looking attractive assuming earnings estimates are broadly accurate.

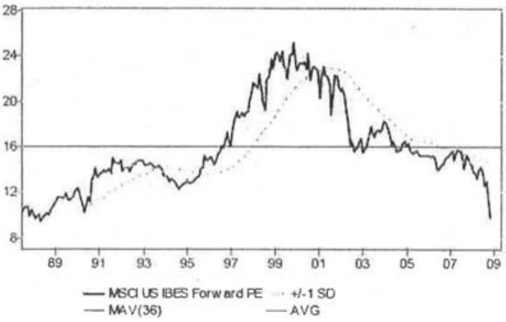
World Forward PE



Source: IBES

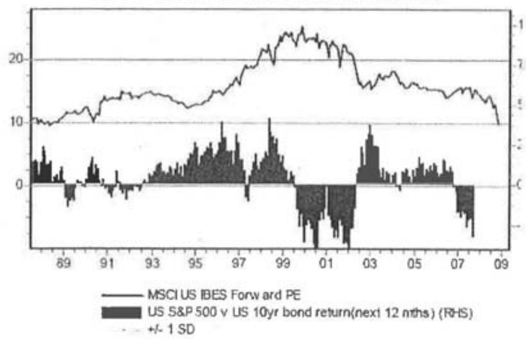
US P/E is well below long-term average

MSCI US Forward PE



Source: IBES

US Forward PE & Performance



Source: IBES

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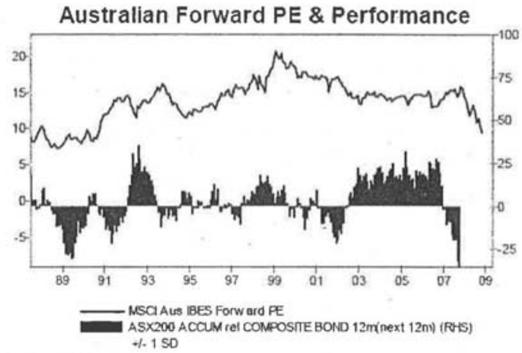
EQUITY MARKET VALUATION

Australian P/E is also below long-term average

Source: I/B/E/S



Source: IBES

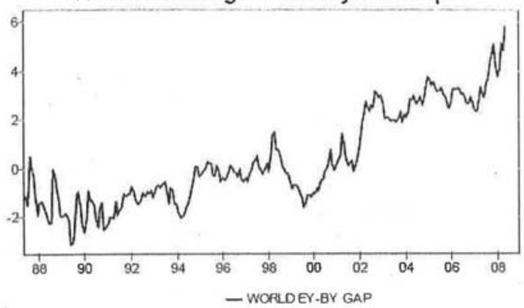
Australia's forward PE now equals World PE. PE relatives remain higher than the 1990s

Source: IBES

EQUITY MARKET VALUATION

World equities appear very cheap relative to bonds.

World Earnings - Bond yield Gap



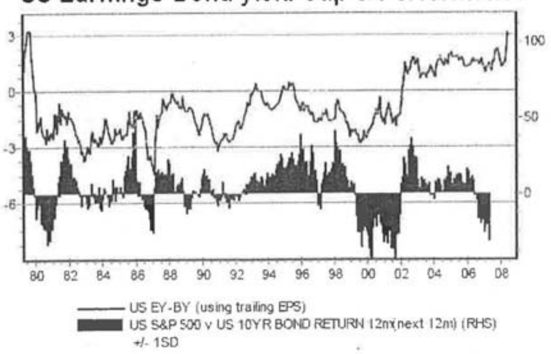
Source: IBES, IRESS, HIS est.

US equities appear cheap relative to bonds, although not as pronounced as world equities

US Earnings(Trailing) - Bond yield Gap

Source: IBES, IRESS

US Earnings-Bond yield Gap & Performance



Source: IBES, IRESS

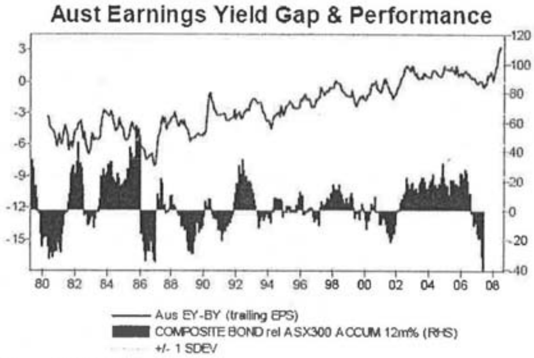
EQUITY MARKET VALUATION

Australian equities appear cheap relative to bonds

Australian Earnings(trailing) - Bond Yield Gap

Source: IBES, IRESS

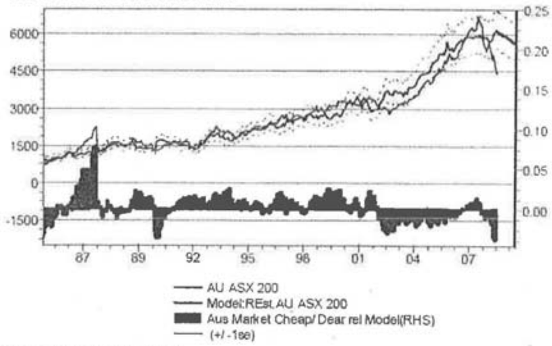
Aust Earnings Yield Gap & Performance



Source: IBES, IRESS

AUST EQUITY MODEL

Heuristic's model (based on earnings yield and bond yields) suggests Australian equities are becoming cheap



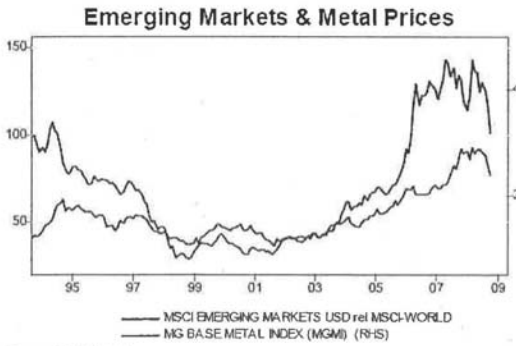
Source: IBES, IRESS, HIS est

EMERGING MARKETS

Emerging markets forward PEs have reduced slightly in recent compared to world forward PEs, however the gap still remain below long term average.

Source: IBES

Recent weakness in commodities has had a detrimental impact on emerging market equity performance.



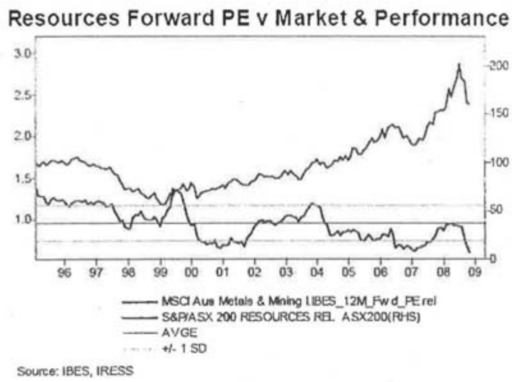
Source: IBES,IRESS

Emerging Markets are exposed to earnings deterioration

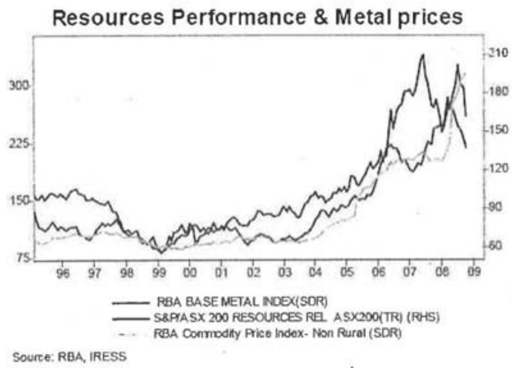
Source: IBES

RESOURCES SECTOR

The deterioration in the global economic outlook and associated fall incommodity prices, has seen the Australian resource sector sharply underperform the broader market



Commodity prices have fallen sharply. Base metals continue to fall. The RBA Commodity Price Index does not reflect the recent falls.

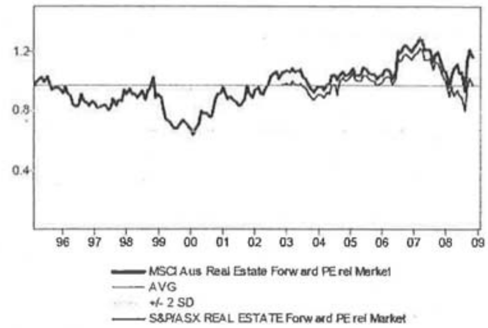


The expected slowdown in world growth is reflected by falls in global IP and is placing pressure on commodity prices and stocks

PROPERTY SECTOR

Domestic P/E relative to global levels has fallen.

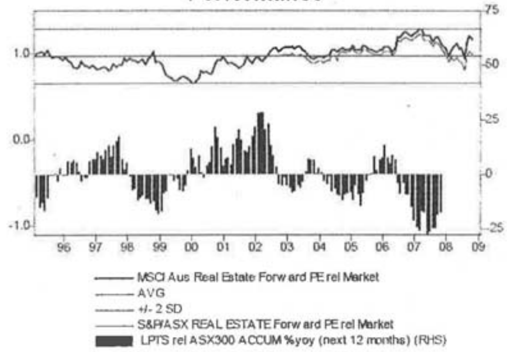
REITs Forward PE v Market



Source: IBES

Expect further volatility of share prices and performance as companies struggle to maintain value. The A-REIT sector continues to lag world measures as the domestic market digests earnings.

Australian REITs Forward PE v Market & Performance

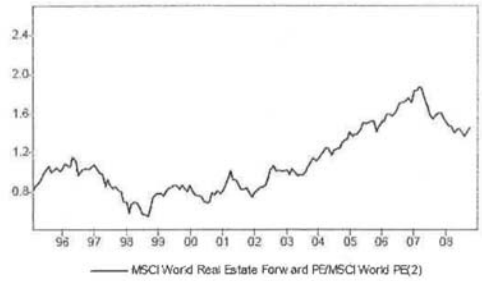


Source: IBES

The significant lift in listed property yields does not imply an equally large lift in yields on the underlying property. A-REIT yields are currently around 150 basis points above the long-run spread over real bonds, and direct yields are only 50 basis points below.

A reversion to historical spreads over the real bond rate would see A-REIT yields improve by far more than direct property yields would soften.

World REITS Forward PE v World PE

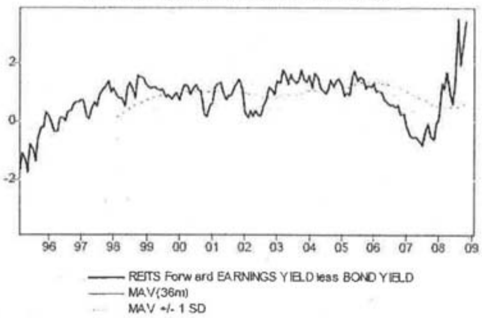


Source: IBES

PROPERTY SECTOR

Global yields are now well above historical average

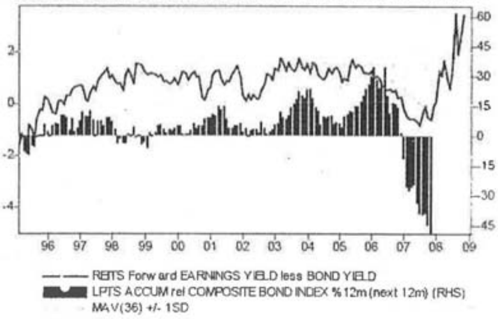
REITs Forward Yield v Bonds



Source: IBES, IRESS

The significant spread in forward earnings yield, REITs compared to Bonds will implies they are much cheaper but we suspect that the bottom-up earnings forecasts for FY09 may be too high; this understates the forward PE ratio making them appear cheaper.

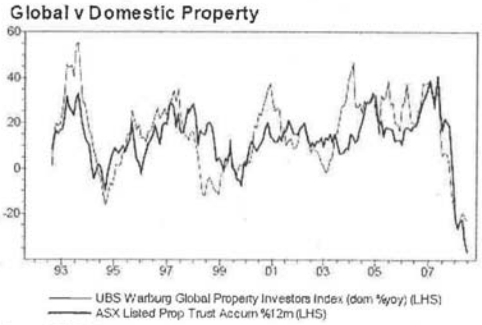
REITs Forward Yield v Bonds & Performance



Source: IBES, IRESS

Global listed property measures continue to remain disparate and skewed from region to region. Valuations of underlying Australian domestic unlisted assets have not decreased in line with our expectations; hence we expect further erosion of value in the short term.

Global v Domestic Property

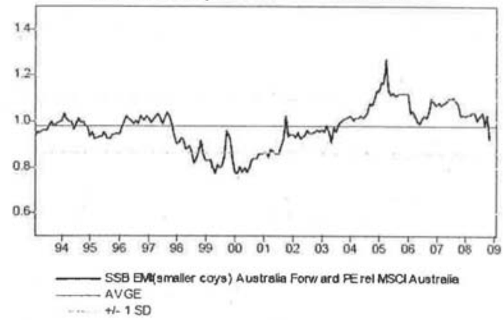


Source: IRESS, Mercer

SMALL COMPANIES SECTOR

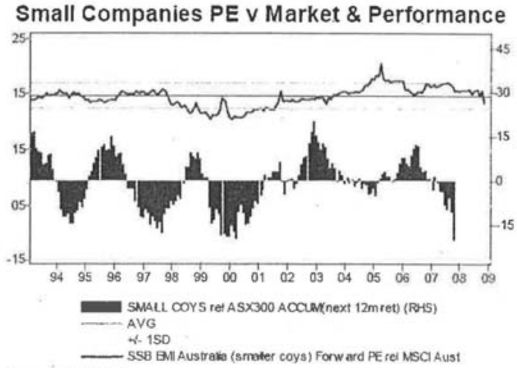
Underperformance of Australian small caps has seen relative PEs return to long-run average

Small Companies PE v Market



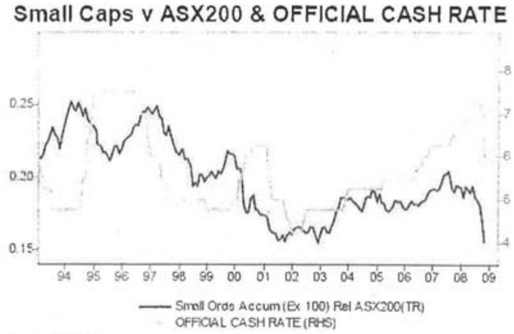
Source: IBES

Small Companies PE v Market & Performance



Source: IBES, IRESS

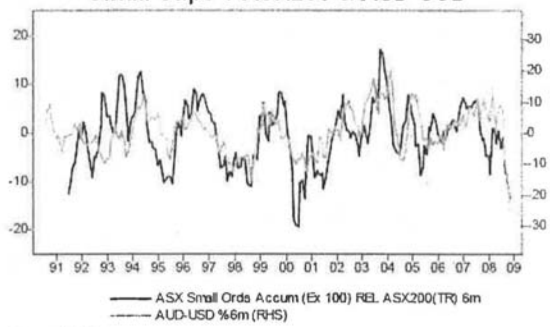
Small Caps v ASX200 & OFFICIAL CASH RATE



Source: IRESS

SMALL COMPANIES SECTOR

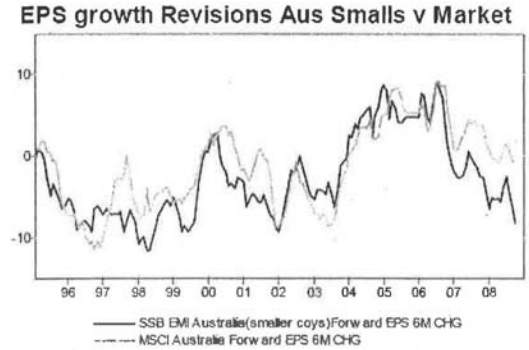
Small Caps v ASX200 & AUD-USD



Source: IRESS

EPS growth Revisions Aus Smalls v Market

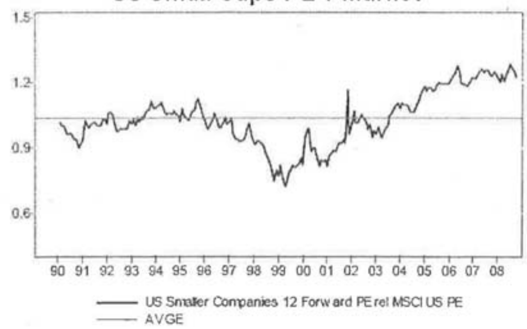
Downward revisions to EPS growth have been more pronounced than revisions for the broader market



Source: IBES

US Small Caps PE v Market

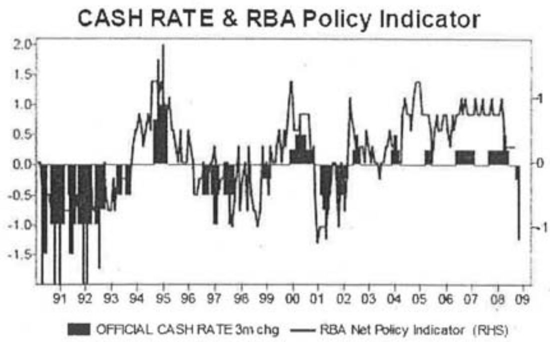
US small cap PEs remain high relative to broader market



Source: IBES

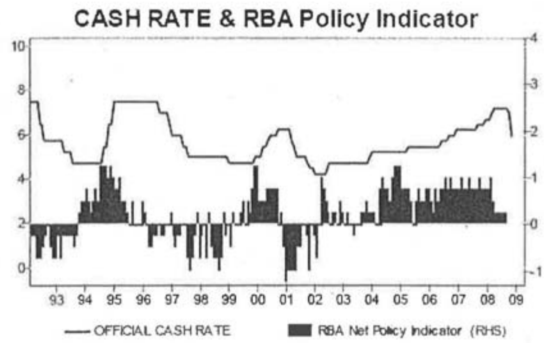
MONETARY POLICY

The RBA Net Policy Indicator has fallen sharply from a strong tightening bias following a shift in the balance of risks from inflation to growth. However, the Indicator remains mildly contractionary as Australian economic fundamentals remain reasonably solid.



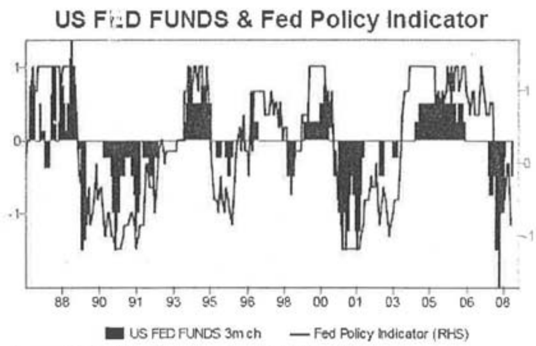
Source: NAB, ABS, RBA, HIS est.

The RBA began its easing cycle in September, cutting rates by 25bp. Rates were cut by a full 1% in October. Further rate cuts are expected in the next 12 months.



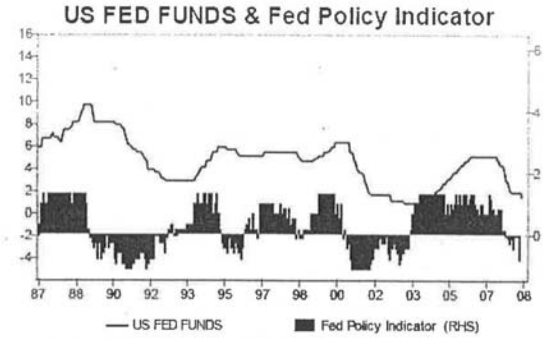
Source: NAB, ABS, RBA, HIS est.

Despite cutting rates by 50 bps on 8 October 2008, the Fed Policy Indicator still suggests an easing bias.

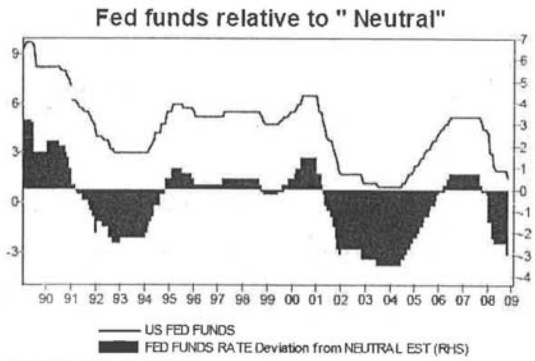


Source: ISM, Phil Fed, BLS, Chicago Fed,US Fed,Dep of Labour

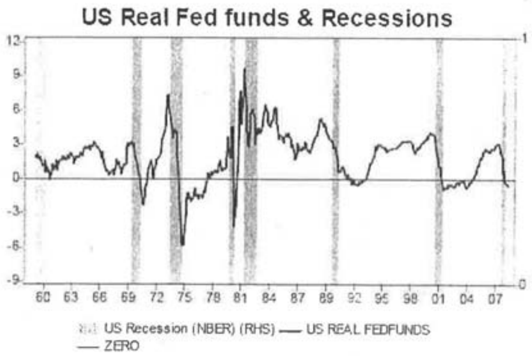
MONETARY POLICY



Source: ISM, Phil Fed, BLS, Chicago Fed,US Fed,Dep of Labour

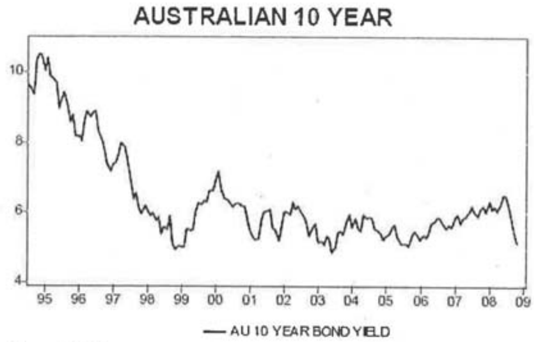


Source: Fed, BEA, BLS, HIS est



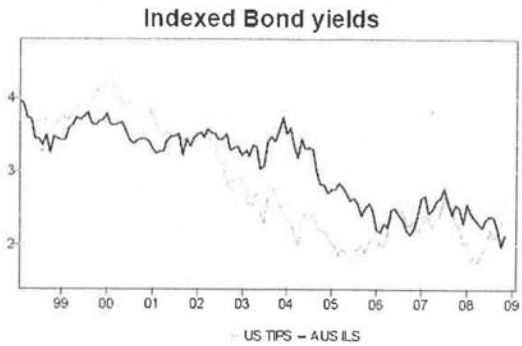
Source: IRESS, BLS,NBER

BOND MARKETS



Source: IRESS

Source: IRESS



Source: RBA,US Fed

BOND MARKETS

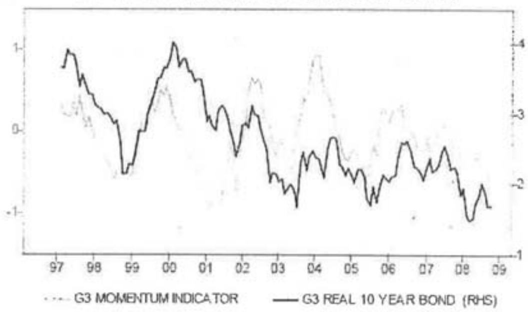
G3 10YR

Source: US Fed, IRESS, HIS est.

G3 REAL 10 YEAR YIELD

Source: US Fed, IRESS, HIS est.

G3 MOMENTUM & G3 REAL 10YR



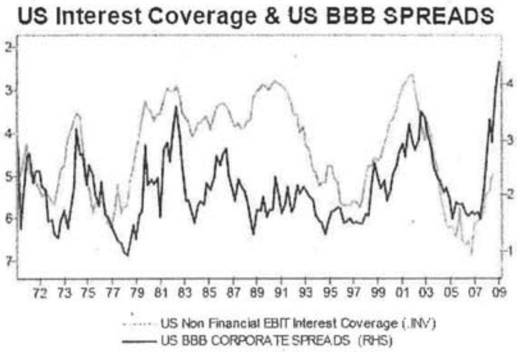
Source: IRESS, HIS est., IFO, ISM, METI

CORPORATE BOND MARKET

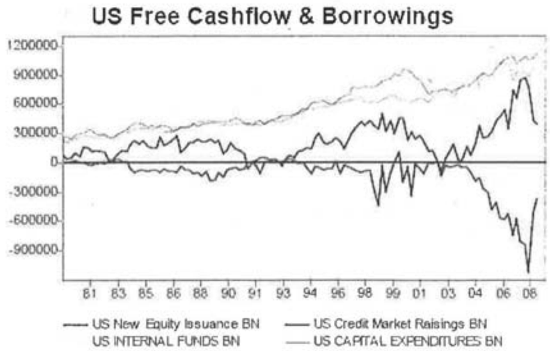
US BBB corporate bond spreads and the US ISM both dived in the third quarter, although there remains a significant difference between the two compared to their historical relationship.

Source: Moody's, US Fed, ISM

Recent corporate spread widening has also borne little relation to the health of corporate bond issuers, as indicated by interest coverage ratios.



Source: Moody's, US Fed, BEA



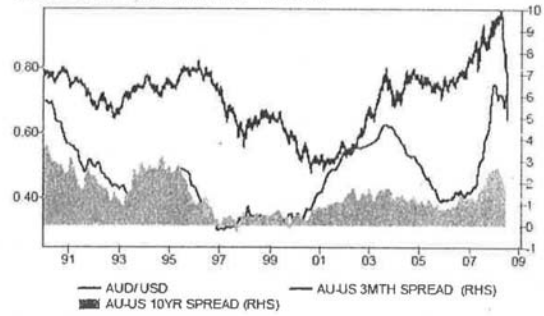
Source: US Fed

AUSTRALIAN DOLLAR

Short rate spread remains high against the US but has peaked. Previous cycles and current global economic threats argue against the upside.

Bond spreads have also peaked reducing A$ support.

AUD-USD & INTEREST RATES



Source: IRESS, RBA, US Fed

A$ is close to its Purchasing Power Parity.

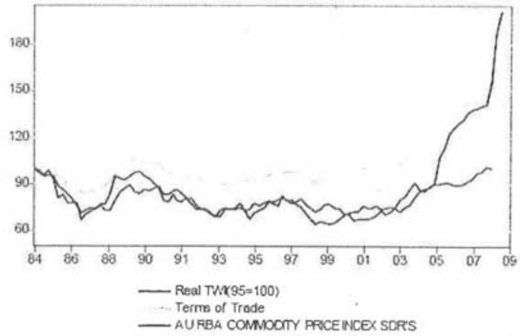
Historically, A$ normally trades below PPP, as it is a small, volatile currency with a large current account deficit. Weaker currency will help to prevent a blowout of current account deficit

AUD PPP & AUD-USD

Source: OECD, IRESS

The terms of trade (export relative to import prices) and monthly commodity price indices are yet to reflect the reality of falling commodity prices.

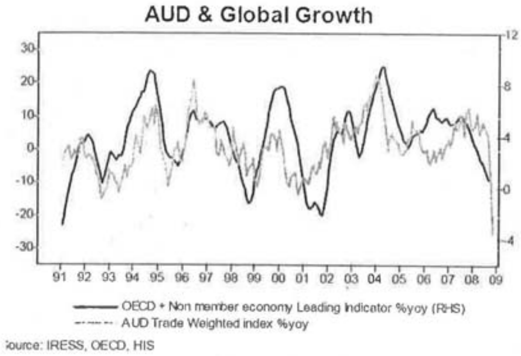
Real TWI & Terms of Trade & Commodities



Source: RBA, ABS

AUSTRALIAN DOLLAR

A$ has already priced in a global recession. At this stage the A$ weakness appears to be leading the downside in growth. A$ momentum on the upside was equally strong.

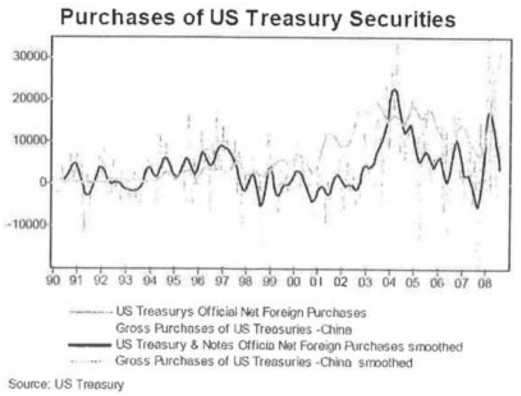


US$ has rallied off its lows. The US current account deficit has improved in response to lower US$. US recessionary forces are strong which argues against major US$ rally at this stage.

Structural fiscal deficit set to rise as US combats financial system crisis and its fall-out in the real economy.

China will continue to be a major source of US funding requirements. Chinese economy reliant on consumer exports to USA and so there is a mutuality of interest in the recovery of the US consumer and economy.

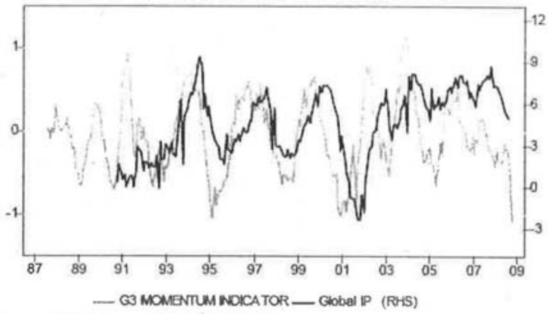
Appropriate adjustment for both economies rather than revival of protectionist arguments.



GLOBAL GROWTH

Global IP is slowing and momentum is at recessionary levels.

G3 MOMENTUM & GLOBAL IP



Source: OECD, Economist, IFO, ISM, METI

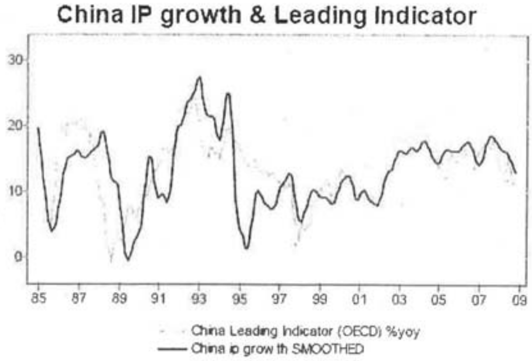
Decoupling argument is no longer supported. Global economy is slowing, along with the US

US RETAIL SALES & GLOBAL IP

Source: OECD, Economist, BLS, Census Bureau

Early signs that growth in China is moderating

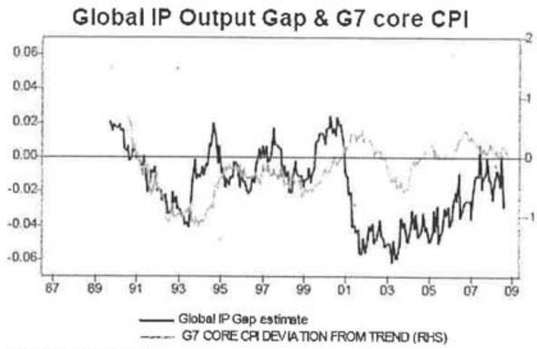
China IP growth & Leading Indicator



Source: OECD, National Buruea of Statistics of China

INFLATION

Output gap (actual – potential growth) is expected to become more negative as global growth slows. Inflationary pressures in advanced economies (G7) are expected to subside

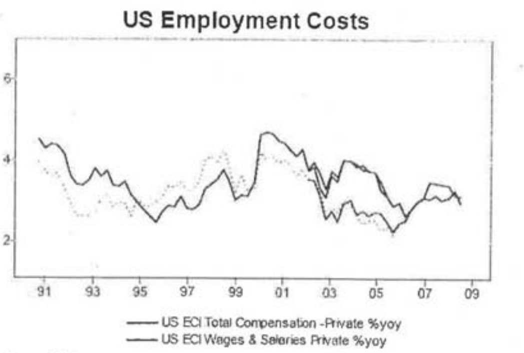


Source: OECD, HIS est.

China is no longer exporting deflation to the US and other developed markets

Source: BLS

Low risk of wage "blow-out" in US



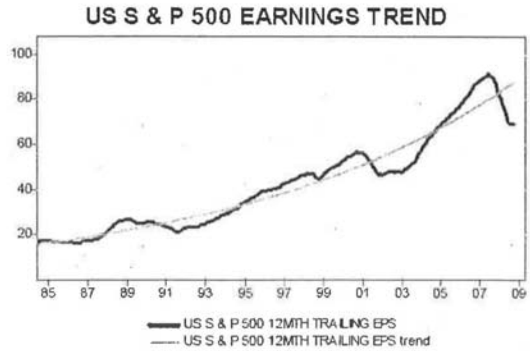
Source: BLS

EARNINGS

Australian earnings are above trend

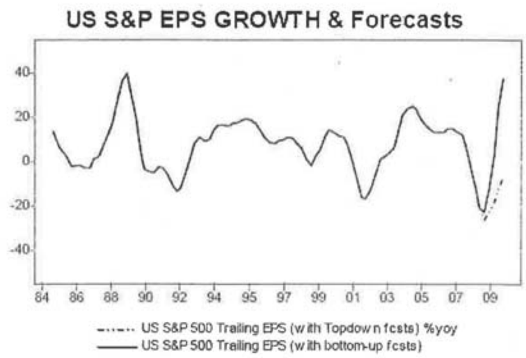
Source: IBES

US earnings have fallen below trend



Source: IBES

US analyst bottom-up EPS growth forecasts are optimistic compared to top-down forecasts. Downward revisions to analyst EPS forecasts are expected

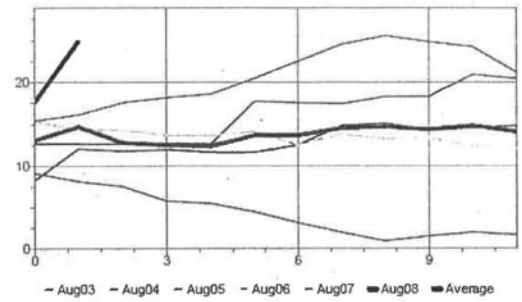


Source: BEA, S&P

EARNINGS

Australian earnings forecasts are overly optimistic given the macroeconomic outlook. Bottom up forecasts are for 20%+ EPS growth over the next 12 months.

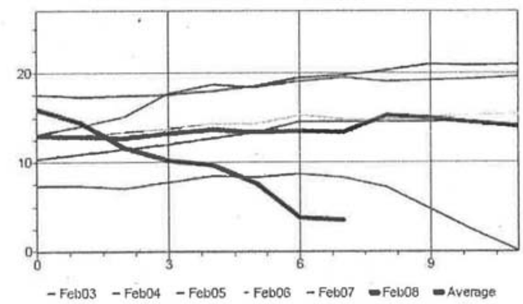
Australia 12 month EPS Growth revisions



Source: IBES

Year ahead earnings forecasts for the US have been revised down but positive earnings growth is still expected

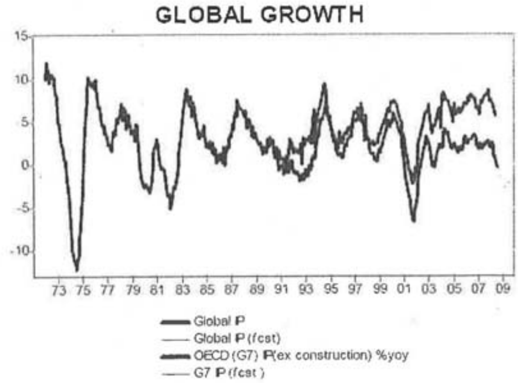
US 12 month EPS Growth revisions



Source: IBES

The slowdown in advanced economies is spilling over to developing economies

GLOBAL GROWTH



Source: OECD, Economist, Bundesbank, METI, US Fed

Appendix 3 - The division of board roles by leading international academics.

The Board's role	Researchers
Performance enhancement role and monitoring role	Hilmer (1993)
Supervisory function and Management function. Monitor and Audit	Demb and Neubauer (1992) Demb and Neubauer (1990)
Strategic and Financial Control.	Baysinger and Hoskisson (1990)
Service, strategic and control roles	Zahra and Pearce (1989) Rechner and Dalton (1991) Sheridan and Kendall (1992) Tricker (1984, 1994) Cadbury (1995)
Accountability, supervision, direction and executive action	Tricker (1984)
Monitoring role and a participative role	Williamson, (1984)
Decision management and decision control	Fama and Jensen (1983)
Ratifying and monitoring roles	Bosch (2005)

Appendix 4 - Doctoral Thesis Research Letter – Requesting participation

Contact Name

Contact Title

Superannuation Fund

Postal Address

Suburb State Post Code

Dear Contact Name

Doctoral Thesis Research – Innovation and Corporate Governance within the Superannuation Industry

I am writing to you about a doctoral research project being undertaken by myself at the Australian Innovation Research Centre, at the University of Tasmania.

This research will look at superannuation funds in Australia to determine the level of innovativeness and corporate governance within the superannuation industry. In particular, the focus will be on the development of new products and processes by superannuation funds in Australia and whether the boards conduct promotes or hinders the development of these products and processes. It will look at your superannuation fund by way of case study to provide invaluable data in producing a way to 'measure innovativeness'. The aim is to explore the extent of new product innovation, investment strategy innovations, investment in new technologies, administrative innovations or any other innovations specific to the superannuation industry.

This study will enable a better understanding of innovation across the superannuation industry in Australia, and will provide an insight into whether board conduct hinders or promotes innovation within the industry.

The research will be carried out by telephone or face-to-face interviews, which ever is deemed most appropriate at the time. This should take between thirty minutes and one hour depending on your level of involvement with innovation and corporate governance within your fund. No commercially sensitive questions will be asked, and all information collected will be strictly confidential. Results will be held in a secure database by the AIRC.

Your participation will be highly valued, and will contribute to a better understanding of the Superannuation industry in Australia. In due course, I hope that you will find the results both interesting and helpful.

If you have any questions about the process, please call me on 0409 975 249 or 03 62 26 7379. In addition, if you have any ethical concerns or complaints about the way this research is conducted you may contact the Executive Office on

62 26 7479 or by emailing: human.ethics@utas.edu.au.

With best wishes

KIM BACKHOUSE **MBA LLB GAICD AFAIM**

Appendix 5 – Interview Questions (Part A)

Question 1	Is there a Fund emphasis on NPD?
Question 2	Does the superannuation fund measure success of NPD? If yes, How?
Question 3	Are there any processes and systems to bring NPD to market?
Question 4	Does the fund conduct market intelligence on NPD and Innovation?
Question 5	Are there any structural or cultural inhibitors or promoters of a product development pipeline?
Question 6	Does the board play a role in promoting or driving NPD at board level?
Question 7	Is there an organisational focus on product development?
Question 8	Is there any impact of new products on the overall productivity of the fund?
Question 9	What is the current growth rate of new members and new employees of the fund?
Question 10	Has there been a growth rate of market share for the fund?
Question 11	What is the growth rate of funds under management?

Question 12	Does the fund conduct any industry bench marking?
Question 13	What are the operating costs per employee versus industry average?
Question 14	Is there any competitive analysis conducted by the fund?
Question 15	Training and development budget per staff member of the fund?
Question 16	% Snr Management with tertiary qualifications?
Question 17	Is there anything else like to discuss on the topic of innovation?
Question 18	In your opinion, is there any impact from current regulations on corporate governance and innovation
Question 19	Do trustees drive innovation at board level?
Question 20	How does the fund judge the funds performance?
Question 21	Describe the Chairperson's style of the Board?

Question 22	"Does the board works well together"?
Question 23	What were the dynamics of the current board like?
Question 24	Is there anything you would like to discuss?

Appendix 6 – Interview Questions (Part B)

Innovation

i. Was there were any formalised innovation process within the fund?;
ii. Was there were any formal innovation strategy signed off by the board?;
iii. Whether innovation was discussed as a specific agenda item at board level on a regular basis or adhoc basis or at all?;
iv. Was innovation part of the culture of the fund?; and
v. Was innovation somehow measured by the ASF.

General Questions

i. What impact does government and industry regulation in respect to corporate governance have on innovation?
ii. Do trustees or directors of superannuation funds drive an innovation strategy to support organisational and the financial growth of the superannuation fund? Does board conduct matter at all?
iii. Over what period of time are you asking the organisation to judge its performance (such as revenue)?

Appendix 7 – Pilot Questions

A question that this researcher planned to investigate within the ASI included:

What percentage of your firm's new or improved products (processes) were introduced using any of the following methods?

1. *Buying in* ________%
2. *In-house development* ________%
3. *Collaboration* ________%

100%

However, after piloting this question with an experienced management team within Fund 2, in particular with a senior strategic marketing manager, of a large industry fund, who has valuable insight into the financial service industry with marketing and innovation practices, it became apparent that this level of data, would not be readily available within the sample group due to the general lack of measuring innovation.

Appendix 8 - The Consent Form

CONSENT FORM

Title of Project: How does board conduct in Australia hinder or promote innovation within the Australian financial Sector (in particular, the Superannuation Industry)

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1. I have read and understood the Introductory Letter for this doctoral thesis.
2. I understand that the study involves measuring innovativeness within the Superannuation Industry.
3. The methodology involves an interview approach and a case study format.
4. I understand that all research data will be securely stored on the University of Tasmania premises for a minimum of five years.
5. Any questions that I have asked have been answered to my satisfaction.
6. I agree that research data gathered from me for the study may be published provided. I may indicate to the Investigator that I do not wish to be identified as a participant.
7. I understand that the researchers will maintain my identity confidential and that any information I supply to the researcher(s) will be used only for the purposes of the research.

8. I agree to participate in this investigation and understand that I may withdraw at any time without any effect, and if I so wish, may request that any data I have supplied to date be withdrawn from the research.

Name of Participant:	
Signature:	Date:

Statement by Investigator	
☐	I have explained the project & the implications of participation in it to this participant and I believe that the consent is informed and that he/she understands the implications of participation
If the Investigator has not had an opportunity to talk to participants prior to them participating, the following must be ticked.	
☐	The participant has received the Information Sheet where my details have been provided so participants have the opportunity to contact me prior to consenting to participate in this project.
Name of Investigator	
Signature of Investigator	

Name of investigator ______________________________

Signature of investigator ____________________ Date ______________

Appendix 9 – Processes for verifying conclusions

TACTIC	PROCEDURE
Checking for researcher effect	A major issue in qualitative data analysis concerns the potential contamination of data caused by the researcher during their research. Potential sources of contamination in any study include: holistic fallacy, whereby extreme evidence is ignored so data are interpreted as being more patterned or having greater congruence than they actually did; 'going native', whereby researcher-informant relationships preclude the pursuit of further investigation lest it damages the rapport between the parties; and © over-reliance on particular well informed respondents. These influences were minimised by considering the material presented by interviewees.
Triangulation	Triangulation refers to the use of a combination of methodologies in the research of a singular phenomenon, and may be applied to both data and theories. Data triangulation was achieved by gathering material from primary and secondary sources.

Weighting the evidence	Miles and Huberman's (1994) suggest the differential weightings be applied to the data according to (a) informant characteristics and t(b) circumstances under which data were gathered.
Ruling out spurious relationships	Explanatory conclusions depend on inferences drawn that suggest that some factor is related to the other. Kidder and Judd (1987) recommended that researchers inspect each apparent relationship in order to ascertain that other casual processes have not produced the inferred relationship.
Checking out rival explanations	Miles and Huberman (1994) acknowledge that explanations should not be accepted until all possibilities had been explored. On finding alternative explanations, resolution between competing analyses maybe reached by retaining all probable explanations until one became more compelling as the result of stronger evidence or the weight of various sources of evidence.
Looking for negative evidence	Yin (2005) reports that conclusions should be interrogated for evidence that might disprove an established result accordingly, this case study process remained open to contrary findings.

Getting feedback from informants	As part of the triangulation process the solicitation of feedback involved the participants reviewing field notes[73]. Yin (2005) emphasises the importance of this test as a way of corroborating the essential facts and evidence presented in the case report and enhancing the research's construct validity.
Comparing and contrasting variables	Sowden and Keeves (1998) acknowledge that making comparisons ad contrast between individuals, cases, groups, roles, activities and sites will significantly assist with the verification process.

This table is adapted from published work by Miles and Huberman (1994).

[73] The major source on which the findings were based is the interview field notes and documentation was used to verify or elaborate the interview data to increase its validity. Field notes were taken during each interview and then the information was transferred as soon as possible after the collection of data from the interview onto the researcher's personal computer. Other documentation was also requested and obtained from the superannuation fund at the time, such as strategic plans, annual reports and committee structures. Material available in the public domain was also obtained to support any theme emerging from the data.

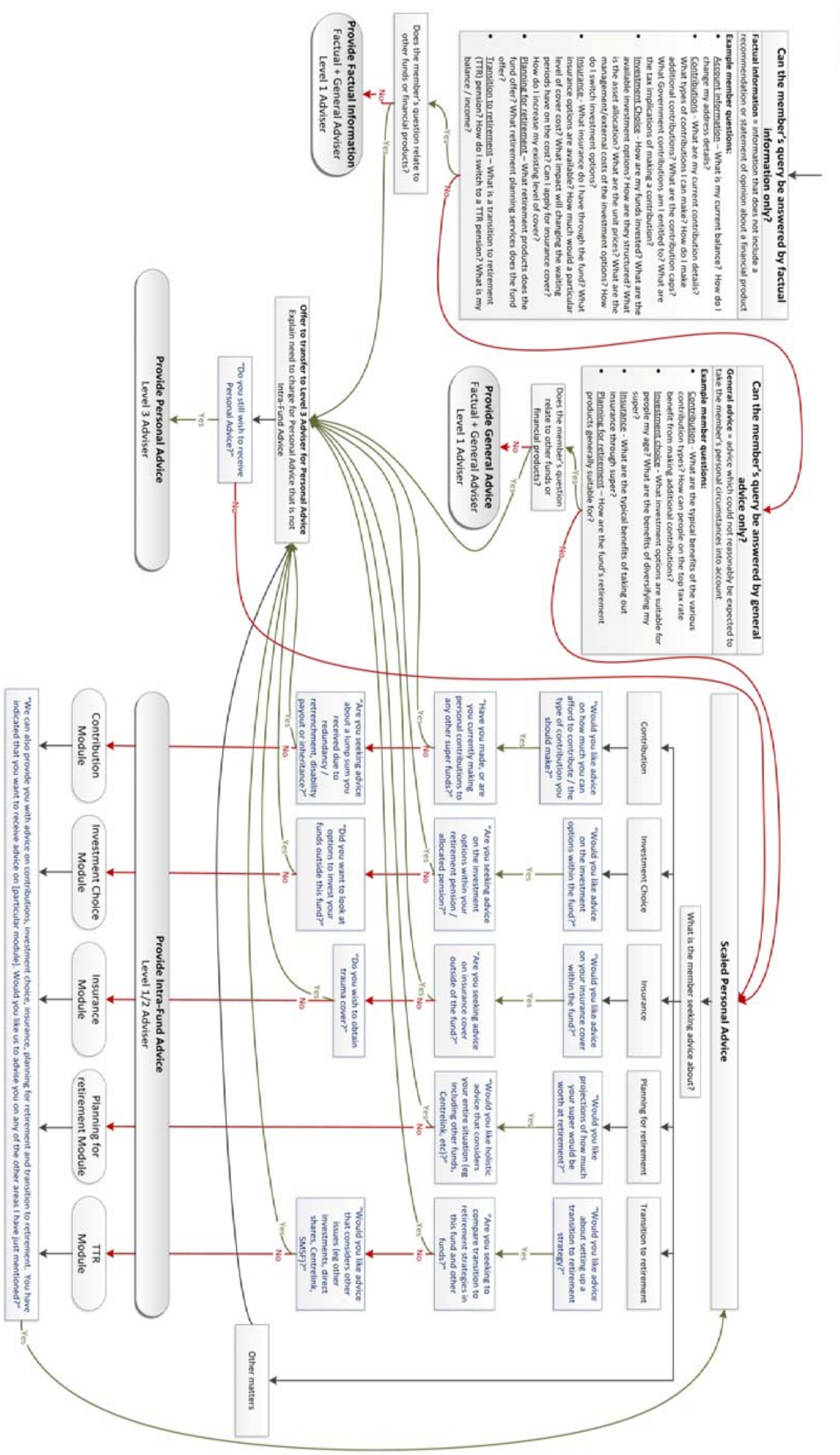
Appendix 10 - Data Set

ID	Ownership	NPD focus	Measurement	Market intelligence	Inhibitors	Board role in NPD	Product develop-ment	Impact of NPD	Competitor analysis	Regulatory impact on innovation	Board innovation	chair/ceo	Board dynamics	FUM	# Members
1	Industry	yes	yes	yes	Structural inhibitor	Active	no	NR	no	yes	no	strong	yes	>$20 B	>700,000
2	Industry	yes	yes	yes	Structural inhibitor	Passive	no	positive	NR	yes	no	strong	yes	>$20 B	>700,000
3	Government	no	yes	yes	Cultural Inhibitor	Passive	no	NR	NR	yes	no	satisfactory	yes	>$3B	<100,000
4	Industry	yes	no	yes	NR	Active	yes	NR	no	yes	no	strong	yes	<$1B	<100,000
5	public offer	no	no	no	Cultural Inhibitor	Passive	no	NR	no	yes	no	weak	yes	>$10 B	>200,000
6	industry	yes	yes	yes	Structural inhibitor	Active	yes	NR	no	yes	sometimes	strong	yes	>$5B	>200,000
7	industry	yes	yes	yes	Structural inhibitor	Active	yes	NR	yes	yes	no	strong	yes	>$30 B	>400,000
8	industry	yes	yes	yes	Structural inhibitor	Active	yes	NR	yes	yes	no	strong	yes	>$30 B	>700,000
9	corporate	yes	no	yes	Cultural Inhibitor	Active	yes	NR	yes	yes	no	weak	yes	>$10 B	>100,000
10	industry	yes	yes	yes	Cultural Inhibitor	Active	yes	NR	no	yes	no	strong	yes	>$10 B	>400,000
11	industry	yes	yes	yes	Cultural Inhibitor	Active	yes	NR	no	yes	no	strong	yes	>$10 B	>400,000
12	industry	yes	yes	yes	Cultural Inhibitor	Active	yes	NR	no	yes	no	strong	yes	>$10 B	>400,000
13	industry	yes	yes	yes	NR	Active	yes	NR	no	yes	no	strong	yes	<$1B	<100,000
14	Government	yes	yes	yes	Cultural Inhibitor	Active	yes	neutral	no	yes	no	strong	yes	>$10 B	>200,000
15	industry	NR	NR	yes	NR	Active	no	NR	no	yes	no	strong	yes	<$1B	<100,000
16	industry	no	no	yes	NR	Active	yes	NR	no	yes	no	strong	yes	<$1B	<100,000
17	public offer	yes	yes	yes	Cultural Inhibitor	Active	yes	NR	yes	yes	no	strong	yes	>$30 B	>700,000
18	industry	yes	yes	yes	Cultural Inhibitor	Active	yes	negative	yes	yes	no	strong	yes	<$1B	<100,000
19	industry	yes	yes	yes	Structural inhibitor	Active	yes	NR	yes	yes	yes	strong	yes	>$10 B	>700,000
20	industry	yes	yes	yes	NR	Active	yes	NR	no	yes	no	strong	yes	>$1B	>100,000

Appendix 11 - Proposed Measures of Innovation

1. New business/products revenues per employee
2. Number of new revenue streams
3. Product Development Ratio (Revenue from non super products/Revenue from core super products)
4. Growth rate of new members and new employers
5. Growth rate of market share and funds under management

Appendix 12 - Communication Processes Diagram



Appendix 13 - Examples of collaboration by industry funds categorised as innovative within the Australian Superannuation Industry (by Kim Backhouse adapted from Drew and Stanford (2003)).

Organisation	***Structure***	***Activities***
ACSI	*Membership Body for NFP funds*	*Research and activism*
AIST	*Membership body primarily for AIS Trustees*	*Professional Development for Trustees*
ISTP	*Trustee Company*	*Property Investments*
ISH (formerly IFS) ***IFS*** ***IFM*** ***MEB*** ***MEPM***	*Established by Multiple Funds (40+)*	*Services offered to these funds include: Retirement income products, infrastructure, private equity investments* *Services to members: Banking, Funds management*
Super Partners	*Established by Multiple Funds (12)*	*Fund administration services provided to ASFs*
Frontier Investment Consulting	*Owned by 4 funds (shareholders)*	*Asset consultants within the industry*